THE MAGAZINE OF WALL STREET

SEPTEMBER 3, 1932

How Far Can This Market Go?

By A. T. MILLER

If Inflation "Works"

By THEODORE M. KNAPPEN

Railroading on Borrowed Money

By PIERCE H. FULTON

C. G. Wyckoff
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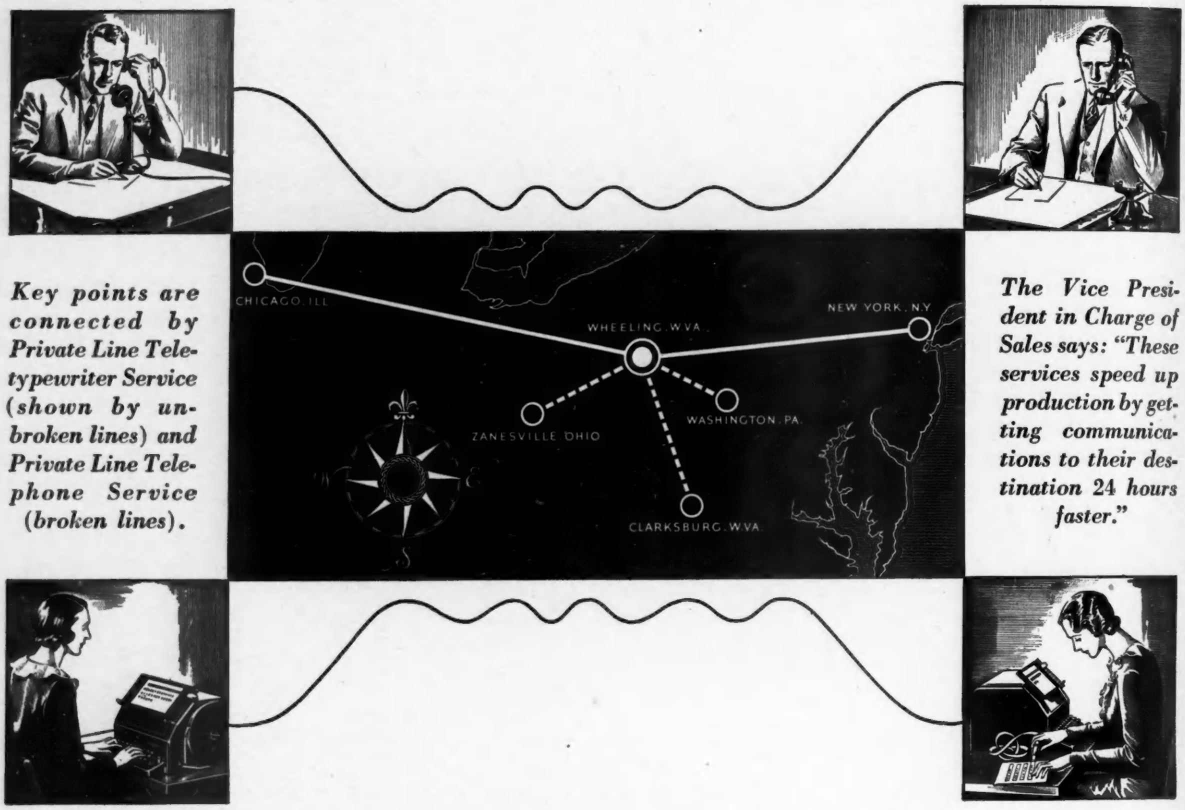
TWO WAYS TO REDUCE COSTS

Hazel-Atlas Glass Company effects many operating economies by (1) *Long Distance* and (2) *Private Line Teletypewriter Service*



Key points are connected by Private Line Teletypewriter Service (shown by unbroken lines) and Private Line Telephone Service (broken lines).

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WITH THE EDITORS

Recouping by Averaging

WHEN the market gives evidence of definite improvement and the business skies show signs of clearing, the investor's thoughts turn inevitably to the prospect of recouping losses. Perhaps the first impulse in this connection is to "average." Low prices obviously suggest opportunity. Shares acquired at 60 and carried down in the dark days of May and June to perhaps 12 may now have recovered to 18. With this suggestion of a changing trend, why not make a second purchase of an equal amount, the investor reasons, and bring the average cost to 39. Perhaps he may go still further and, in view of the low price and small capital required, buy two or three times the original commitment and bring the average still lower. This is frequently done by those who average as the market declines. That is, to use the example above, one commitment is made at 18, on reaction to 15 a second is assumed and perhaps a third still lower.

The logic of such averaging is sound as far as it goes but there are one or two other considerations to be weighed before undertaking it.

The first and most important is the soundness of the company involved. Averaging is just another name for increasing one's investment stake in the same enterprise and it is naturally wise to inquire before doing so whether further investment is justified. In other words what are the prospects of the shares recovering to the point of average cost or beyond it and how soon might this be expected? Is the industry one to respond readily to any general increase in trade and industry? What is the company's position in that industry? Is it strong competitively, as well as financially? Does it pay a dividend and afford a satisfactory return on the increased investment in case the shares must be held a long time?

All of which is to say that before averaging a stock should be as carefully and critically appraised with regard to present position and future prospects as any new investment. In this light it may well be that the basic purpose of the averaging, i. e., to regain losses, may be best accomplished in some other issue of similar price level but with more favorable prospects of early recovery or more attractive income return in the meantime. It will make no difference in your bank account whether the stock which gains 20 points is one in which you originally invested or a totally different issue. Moreover, desirable diversity of one's investment may be secured, and the chances participating in early recovery enhanced, if funds are spread over several well-situated industries and sound companies with good prospects.

In the Next Issue

Where Will Business Improvement Show Up?

By JOHN C. CRESSWILL

Watch production says one school of economists; **retail distribution** must come first says another. This authoritative and practical article goes to the heart of the biggest factors in business recovery. You will find it of practical help in both business and investment.

Corporations in a Sound Investment Position

Selected by THE MAGAZINE OF WALL STREET Staff

—Sound management.
—Profits despite lower revenues.
—Economies which can be maintained so that small gains in business will make rapid growth of profits.

Why Oil Continues to Lead in Recovery

By N. O. FANNING

E. Kenneth Burger
Managing Editor

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Publisher

Theodore M. Knappen
Associate Editor

The Trend of Events

—More Smoke Than Fire
—The Farm Strike
—Hitler is On the Spot
—Logical Final Assault on Depression
—Candor from the Stock Exchange
—The Market Prospect

MORE SMOKE THAN FIRE

IN the "rescue program" of the Reconstruction Finance Corporation, particularly as applied to banks and other fiduciary institutions, there is genuine merit. This work has contributed greatly to the restoration of healthy confidence in our general financial structure. The Federal Administration, however, makes a distinct departure from this sound program in some of its efforts to stimulate a direct credit expansion by inducing business to borrow money for purposes not clearly essential. In recent weeks highly inaccurate newspaper reports have led the public to expect the railroads to begin heavy buying of equipment with funds borrowed from the Reconstruction Finance Corporation. The public also was given the impression that a vast "commodity pool" would be formed and, again with Reconstruction Finance Corporation money, would attempt to put commodity prices higher. In both of these projects there has been much more smoke than fire. The railroads, being in no acute need of new equipment while thousands of serviceable cars and locomotives lie idle, have shown a definite and wholesome reluctance to borrow money for this purpose. Their reluctance to add to debts and fixed charges represents a healthy, common sense attitude and is highly to be commended. Little trust could be placed in a business stimulation effected in this artificial manner. The "commodity pool" as actually organized utterly belies the name so loosely given it. It is not a pool in any sense and has not the faintest idea of attempting to "put prices up." Its purpose is to provide credit, along conservative banking lines, for commodity buyers who lack such facilities in their own areas. That commodity prices are improving for natural reasons, without dangerous manipulation, is all the more gratifying.

THE FARM STRIKE

OPPRESSED by an inflated burden of mortgage debt and by unsatisfactory prices for his products, the farmer has had a trying time since 1920. Accordingly, one is forced to view with sympathy his resentment over the conditions which surround him and his efforts—however misguided—to improve his lot. It is from this background that the spontaneous "farm strike," now in progress in several western states, should be viewed. To any informed observer of economic history, this program of withholding commodi-

ties from their natural markets by persuasion or force is pathetically futile. Insofar as force is involved, the effort is, of course, definitely illegal, just as illegal as a hold-up at the point of a gun. Since the interests of thousands of consumers are adversely affected, it would be strange, indeed, if they failed to demand that all available agencies of law enforcement be used to curb the illegal use of force by farm pickets. Quite aside from the legal aspect of the strike, it is a notable example of the fact that mankind seems utterly unable to learn the lessons which experience, and recent experience at that, has taught. The taxpayers, including farmers, are now paying a heavy penalty for the Federal Farm Board's adventure in price-fixing. Industry after industry has met defeat in price-control schemes. Yet a very considerable body of western farmers are now having a try at the same impossible goal. Prices will always be fixed by supply and demand. An artificial increase in price always checks demand and increases supply, leaving the would-be price-fixer worse off in the second estate than in the first.

HITLER IS ON THE SPOT

IN the present dispute between Nazi leader Hitler and the Von Papen-Von Hindenburg Government in Germany it would appear that Herr Hitler has reached a point at which he must put up or shut up. His claims of overwhelming political victory at the polls have been refuted. His "Boy Scout" request that he be permitted quietly to become the imitation Mussolini of Germany has been curtly declined by President Von Hindenburg. He has repeatedly fired the enthusiasm of his followers by vague promises of "direct action." Thus far his party's "direct action" has consisted merely of thuggery. In the Government's imposition of the death sentence upon five Nazi murderers and in Hitler's demand that they be pardoned, the issue has now been joined. At this writing there is every indication that the Government will stand firm and accept Hitler's challenge. The early course of events may determine whether Hitler's power has passed its peak and is on the wane or whether he is to go on to new triumphs.

LOGICAL FINAL ASSAULT ON DEPRESSION

IF the Federal authorities are right in their titanic effort to check the recession of business and turn it into real recovery, the President's National Conference of the regional Business and Industrial Committees was fully justified. It was the logical, culminating step to create a central committee of government officers, bankers, and business leaders charged with the duty of co-ordinating and energizing the credit forces that have been steadily building for a year. To create a long series of constructive measures and leave their efficiency to accident or the slow processes of unmanaged restoration would be to negative the whole program—which is a program of willed action to combat deflation. It would be like aiming a cannon at an advancing enemy without discharging it.

Many competent critics denounce the whole scheme of artificial resuscitation of industry. They may be right; the event will tell. The nation as a whole thinks otherwise and is enthusiastically supporting the great offensive and applauds its fighting culmination in a frontal attack on the powers of depression and despair. Whatever the differences in preconceptions regarding the active policy may be, there is now nothing to do but smash forward with full force.

It should not be forgotten that there is excellent reason for believing that the final thrust is being undertaken at the very moment when the tide of depression has turned. This being the case, the chances of failure are much less than they would have been had the decisive effort been made while retreat was still the course of discretion.

CANDOR FROM THE STOCK EXCHANGE

THE recent report as to the Senate Committee's investigation of the stock market which Richard Whitney, president of the New York Stock Exchange, has made to his members is interesting in several respects. Mr. Whitney says, rightly, that much of the testimony before the committee was "incomplete or misleading." He is right, also, in saying that the effect of short-selling has been greatly exaggerated in the popular imagination. What is most important, however, is that on several of the genuinely serious abuses brought out in the investigation Mr. Whitney not only makes no effort at a "whitewash," but joins in condemnation and pledges all possible effort by the Exchange to protect the public interest. He is particularly vehement in his denunciation of corporate officers and directors who misuse confidential information for personal advantage and of "nefarious pools." Yet he correctly points out that, as regards dishonest corporate officers, the final responsibility rests with stockholders, even though the Exchange undertakes to exercise all possible vigilance in this matter. In regard to manipulative pools, the difficulty is that the Exchange finds it impossible to extend its rigid supervision over non-members. Would it not be possible, however, to impose a stricter responsibility upon member firms? Is it too much to expect them to know for whom they are executing orders? However difficult the task, some method must be found for further curbing manipulative abuses. The pool, whose sole purpose is to feed upon a gullible public, is again thriving in the present market.

THE MARKET PROSPECT

OUR most recent investment advice will be found in the discussion of the prospective trend of the market on page 536. The counsel embodied in this feature should be considered in connection with all investment suggestions elsewhere in this issue.

Monday, August 29, 1932.

As I See It — *By Charles Benedict*

A New Order Must Emerge

NO doubt in time the broken economic machine will be patched up and we shall have a return of prosperity. After that what? As industry and commerce are now organized and administered we shall have another collapse. The machine will break down again, and probably approach something like total wreck. This old mechanism was good in its time and, for a period in the middle of the last century, worked almost perfectly from the standpoint of the producers, although not of the consumers. Now, even if in perfect repair it is not adapted to the times.

A new economic organization is needed to deal with a world that is economically as different from the Victorian age as an airplane is mechanically different from an ox-cart. The fundamental difference is that the problem of recently past decade has been solved. The emphasis was then on production. There was not enough food, not enough clothing, not enough housing, not enough of necessaries and no luxuries except for the few. Today our problem has long ceased to be one of producing enough. It has become instead one of how to consume what we produce.

We do not know how to distribute our wealth and we suffer from the ghastly paradox of many millions of workers in the civilized world without access to the wealth that is piled up beyond all the dreams of the ancient world. It is wealth that they have helped to create yet their labors do not bring it to them; nor does its possession bring peace to those who have it. The latter find in their very wealth in excess the threat (and at present the fact) that the machinery of wealth production will be rendered valueless because there are no means to merge production and consumption in a complementary whole. Something has gone wrong under modern conditions with the whole process of exchange of goods and services.

The engineers who have brought technology to such a stage of perfection that production of abundance is no longer a worry have recently told us through a committee, that the only solution of the problem of too much in the presence of too little is a technical task. The engineers gave us our capacity to create wealth through concentration on individual tasks. Now they say they must be entrusted with the solution of the problem of co-ordinating the diverse mechanisms they have built. Applied science will be as necessary in the future as in the past; but henceforth it must embrace industrial and commercial management and planning to as great a degree as it has previously concerned itself with production.

The socialists will say that no such co-ordination is possible except under general nationalization of production and distribution. But the socialistic system is at war with American principles, traditions and yearnings. There is no possibility of its being realized expeditiously, even if its perfection were acknowledged which it likely never will be so long as men find other great values in life than the purely material ones.

But what to do? Are we to emerge gladly from the present morass, quite content to be engulfed in another one in five or ten or twenty years? Are we to neglect the obvious weak points in the present order?

We must find a way to reconcile orderly economic life with our precious individualism or perish. We must not be destroyed by our own engines. The times call for capitalism and individualism to devise their own cure for their own maladies. A way must be found to balance the diverse productivities of the nations and facilitate the exchange of their products

First of all, we must rationally control and direct production. Next we must find the means of bringing the products and the needs together. We must bring to an end the mob production that mass production has become. We must not produce more wheat and other staples than we could consume even if there were no money and price system and everybody could help himself at will. We must not manufacture more automobiles and radios than any possible extension of human desire and capacity to buy could absorb.

We must find means to distribute more evenly the tickets to possession of wealth. That is to say the more we produce the more must we place money or credit—purchasing power—in the hands of the masses. There must be more dividends in prosperity and more payroll and less and less conversion of consumable wealth into production wealth. Our great corporations must become instrumentalities of moving products from the machines to consumers, instead of mere greedy combatants for money and power, whose unbounded success too often spells the common woe.

All this is an order of the first magnitude. It demands inspired and self-sacrificing leadership in business and a sort of economic patriotism. At the moment it seem a chimera, but there may be crystallizing in the nebulous mass of the present economic world—an inspiring vision of a new order which will take our captains of industry and trade out of themselves and fill them with a passion for achievements that will transcend in satisfaction and ultimate rewards all the magnificant adventures of a disorderly world wherein the triumph of a few has all too frequently been the ruin of the many.

How Far Can This Market Go?

Increased Prospect of Necessary and Desirable Technical Reaction — Buying Opportunities Will Be Presented

By A. T. Miller

BALLYHOO, manipulation and a very genuine spirit of hope on the part of the public continue to sustain the stock market. Yet the recovery at this writing appears unquestionably to be losing momentum. For many stocks of the leader type the negotiation of an advance of one or two points is now clearly more difficult than it was a fortnight ago. Heavy volume and a churning around of prices within a relatively narrow range suggest that professional sponsors of the rally, now operating chiefly in secondary issues, are finding the going increasingly difficult.

The past fortnight no doubt has seen a substantial volume of "good" profit-taking and of pool distribution. It is probable that the weaker short account has been somewhat curtailed and certain that an advance so spectacular and well-advertised has increased the purely speculative long account. The position, therefore, appears to call for extreme caution, even though the artificial character of the market makes it utterly impossible to forecast the exact top of the current phase of rally, and even though it is quite conceivable that further immediate advance will precede the inevitable corrective reaction.

To Buy on Reactions

Suggested speculations for autumn profits

Atchison	**American Can**
Union Pacific	**Westinghouse**
Northern Pacific	**Liggett & Myers**
Consolidated Gas	**Air Reduction**
American Telephone	**Atlantic Refining**
North American	**National Biscuit**
United Corporation	**Coca-Cola**

Standard Oil of New Jersey

If the present "confidence campaign" takes hold, there will be an actual improvement in basic industries this autumn, an improvement visible in the accepted business indexes. The fact that there is no convincing sign of such improvement in the current indexes, necessitates a cautious, watchful attitude, but by no means necessarily implies that we will have no business advance in coming weeks.

It is important, however, to consider the possible character of the revival to which the country is so eagerly looking forward. It need hardly be pointed out that the fluctuations of business are never as sudden and violent as those of the security markets. The fundamental position of the country—with 10,000,000 persons unemployed, with the national income drastically reduced and with excessive debt burdens still pressing upon individuals and corporations—is not such as could permit a rapid return to normal prosperity. On the contrary, the reabsorption of the unemployed promises to be slow and it is quite certain that corporate earnings, which are the heart and soul of stock values, will not double and triple over a brief period of time in the recent manner of the stock market.

Watch for Reaction

In the preceding issue of this publication we recommended fifteen stocks for purely intermediate, speculative purchase, accumulation to be accomplished only on substantial reaction. This advice is unchanged. The list of stocks is again presented with this article. Because of the time element involved in our publication, it is necessary to emphasize again that price levels suitable for speculative purchases will, obviously, have to be left to the buyer's discretion. In anticipating corrective reaction, however, we have in mind a possible retrace of 25 to 50 per cent of the rally.

So far as the longer term outlook is concerned, there is no reason whatever for investors to be stampeded. Putting the best possible complexion upon the current economic evidence, there is no occasion to reach for stocks or to fear that the major portion of a bull market has been missed.

Discounting the Future

Even if it be conceded that many stocks were greatly over-sold in June and that prices subtsantially above the bottom are justified merely by a change for the better in public psychology, it nevertheless is true that quotations have advanced to a point which probably discounts a substantially greater nearby improvement in the base of corporate earning power than can logically be expected.

In short, whether the basic uptrend outlined in recent weeks is a correct forecast of the longer future or not, we have the familiar spectacle of the market running to excess in its prophesy. Theoretically, it would be possible for the advance to halt and wait for business to catch up. Almost invariably, however, what happens is that an overbought market relapses to a level somewhat nearer conformity with the business realities.

A major secondary reaction of this type, familiar after

the initial phase of past bull markets, is not to be confused with technical correction of the present rally. Regardless of the lack of immediate support from business, the tremendous power of the forces back of the recent recovery is impressive. There is an overwhelming desire on the part of the Government, of large financial interests and of the public that prices go higher. The full weight of the Federal Government's influence and credit is supporting the general endeavor to brighten the picture between now and November.

All of this effort would have been in vain if the movement were permitted to collapse at this time. If it can not be supported through the autumn it will not be for lack of all possible help on the part of those in a position to influence the public's psychological attitude. Meanwhile, however, corrective reaction would be no serious blow to this program and, indeed, would make later resumption of the rally somewhat easier.

It is difficult, if not impossible, this far in advance to forecast the timing of more serious reaction. The real values of stocks will be directly affected by the actual business developments of the autumn season, and investment attitude also will almost certainly be affected by the outcome of the national election. If advance in security prices should be sustained throughout the greater part of the autumn, long-term investors may confidently look to a genuine buying opportunity upon secondary reaction at some time after the election. Reaction of this kind, even after business has made a turn, is one of the most consistent of market tricks and is a signal always awaited by cautions investors who would rather be certain of their position than to risk guessing in an atmosphere so highly charged with speculation.

However hopeful one may be, there is little justification for relying blindly on the forecasting abilities of the modern stock market. In years gone by, the market was a reasonably accurate business barometer. In recent years it has plainly departed far from this function. Formerly a relatively limited number of individuals in this country were stockminded. Buying and selling by corporate "insiders," actuated by positive developments within their own business, was usually the major factor in any change of trend. In recent years, however, there has developed a vast public interest in stock speculation and the demonstration of the gymnastics possible in American securities has even fired the imaginations of European speculators. The professional trading element is larger than ever before. Finally, the fertilization of the speculative urge by political propaganda is more active and open than ever before. There is little evidence in the recent movement of informed buying of securities of their own companies by the "business man" type of speculator and investor.

In the present period it is uncommonly difficult for the average person to retain an open mind. We have reason to hope, but one's faculties of observation and analysis should not be dulled by the tremendous mass propaganda now being so efficiently conducted by Washington and by the newspaper press generally. First page business "news" has in recent weeks been liberally salted with optimism. One will come much closer to the economic facts by confining attention to the financial pages and to actual statistics.

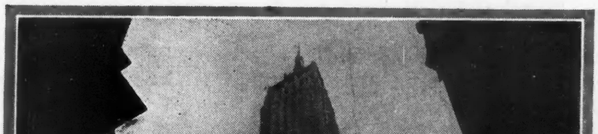
In some respects the propaganda campaign is merely silly. In others it is definitely dishonest and misleading. An example of the first type is the recent newpaper publication, in prominent display, of the fact that the United States Steel Corp. planned to spend $5,000,000 in the improvement of its physical properties. The announcement no doubt might seem impressive to anyone who did not know that last year the company spent more than $45,000,000 for this purpose and that in 1930 the amount so spent was $114,000,000.

An example of the second type is the publication, also with prominent display, of a statement of the United States Public Employment Service implying a notable expansion of industrial activity and employment during the month of July. More collaboration is needed in Washington statements. The official figures of the Department of Labor show that employment throughout the country declined 3.4 per cent during July and that there was a still larger percentage decline in payrolls. It is only fair to point out that such irresponsible handling of employment statistics has been characteristic of official Washington throughout this depression, notably in the early months of 1930. The present sharp contraction of employment in the automobile industry, as revealed by statistics of the Detroit Board of Commerce makes it somewhat doubtful that the official figures on total employment for the month of August can show any significant gain.

For the cause of optimism it is probably imperative that the business indexes show at least slight improvement in the next few weeks. The current records continue to make a rather drab picture. The steel industry continues to operate at the very low level of 14 per cent of capacity, receiving little support from such major steel consumers as the automobile, railroad and construction industries. A doubling of this operating rate this autumn would be gratifying and yet, from (*Please turn to page 576*)

Landmarks of Wall Street, Old and New

No. 2



Keystone View

The Bank of Manhattan Building

¶ *Returning Confidence Suggests Broader Consumption and More Active Buying — How Far Will It Go?*

¶ *Much Talk is Heard of "Bare Shelves" and "Reduced Stocks"—What is the Inventory Position of Business?*

Can Replacement Demand Bring Business Revival?

By JOHN D. C. WELDON

THREE years of retrenchment and skimping by the American people—three years of wear and tear—must inevitably result in a tremendous using up and wearing out of existing equipment and physical possessions of all kinds. This natural and obvious process creates a potential replacement demand on the part of all consumers and, hence, a replacement demand on the part of virtually all business.

The scope and time of fulfillment of this demand, both impossible to reduce to an accurate statistical basis, are of tremendous significance in relation to the general business prospect in coming months. Many economists believe that, as in most older depressions, replacement demand will be the major force supporting a basic business recovery, and that a revival of public confidence in the country's financial structure is all that is needed to set this force to work. Some optimists even envisage a sharp and sudden reversal of commodity demand, similar to the recent remarkable reversal of public attitude toward securities.

Financial Confidence Increasing

If one judged solely by the recovery in stock and bond prices, it must be evident that financial confidence has been substantially restored at present. Certainly it has been greatly bolstered, although other and perhaps more reliable indications supply much less enthusiastic proof than do the security markets. Money hoarding has been checked in recent weeks and currency in circulation shows a slight decline. This movement, however, reflects no such return rush of hoarded funds to the banks as would be expected to accompany a complete restoration of public confidence.

At present it is quite certain that actual improvement in consumer demand falls far short of matching improved sentiment, as the latter is reflected in the newspaper press. If the picture of increasing optimism is to prove real there is a gap which must be closed. The majority of consumers, possessing both current and hoarded—or accumulated—purchasing power must soon begin to buy. A further gain in confidence during the early weeks of autumn conceivably could touch off this demand in substantial degree.

Potentially, it is undoubtedly sufficient to raise business to a degree of activity which would appear relatively prosperous in comparison with the abnormally low prevailing level. Viewed from a sufficiently low base, even a moderate stimulation of business would seem gratifying, however far it left the country below the standards of activity heretofore considered normal.

Such an improvement, based on replacement demand, might produce either a temporary business rally or an enduring recovery. The answer will be written to a large extent by developments within the next three months.

Meanwhile, however optimistic one may be, there is no reason to ignore various obvious difficulties which, in the aggregate, appear to impose definite limits on the degree of stimulation that can be expected to result automatically out of the combination of replacement needs and strengthened confidence. Lack of consumer demand is in part psychological, but only in part. We have suffered a huge actual shrinkage in income and purchasing power. The aggregate national income this year can be scarcely half that of 1929.

Purchasing Power Is At Low Ebb

Undoubtedly, this reduced income is not being employed to its possible maximum in the satisfaction of consumer demand. A somewhat more free spending of it, psychologically induced, conceivably could start a slow process of recovery, ultimately resulting in a broad revival of business activity. There is nothing in the present income position of the American public, however, to suggest that we can lift ourselves suddenly or to any significant extent by our bootstraps.

It is well to bear in mind the fundamental distinction between a genuine increase in consumer demand and an increase in middle-man demand based upon anticipations which may or may not be correct. Many jobbers and merchants no doubt have let their stocks of goods fall to an abnormally low point. An improved sentiment and the

sight of even slight advance in commodity prices may lead them to place hurried buying orders, the effect of which is immediately felt by manufacturers who also had reduced their activities to an unnecessarily low point during the spring and early summer.

At present, for example, we see a spurt in the textile industry. It is not, as far as can be seen, a direct and accurate reflection of a spurt in consumer buying. The evidence supplied up to late August by department store and chain store sales is that consumers are buying little, if any, more than they bought in June. But many textile mills were closed down in June. Thus the simple fact of curtailment in production puts the industry behind even a low current consuming demand, making possible a spurt to fill the gap. It will remain to be seen this autumn whether the current improvement is any more significant than this.

Consumer Demand Remains Low

A similar improvement in demand—a demand that we may call an "internal merchandising demand"—may help other lines of business and produce a temporary stimulation. It need hardly be said that no such movement can prove genuine and enduring unless it correctly anticipates a fundamental change for the better in the actual demand of the ultimate consumer.

Thus far, as has been above intimated, the prospect of real betterment in consuming demand rests very largely upon hopeful anticipation, rather than accomplished fact. General distribution, as reflected in statistics of railway carloadings, does not yet show any significant gain. Between July 13 and August 13—a period during which the maximum security market gains were scored and during which the country was deluged with optimistic press reports on business—the sales of the largest mail order company dropped to a new low mark for the year.

To the realistic observer it appears quite certain that the tardiness with which general business is responding to improved sentiment is very definitely related to the cold fact that at least 10,000,000 persons are totally unemployed in this country. Some estimates run much higher. On a conservative estimate, including dependents of the unemployed, at least 25,000,000 individuals in this country are currently subject to more or less acute economic distress. Moreover, the purchasing power of other millions has been reduced by part-time work and wage and salary reductions.

The credit position of these groups necessarily has been seriously impaired. They are burdened with old debts, which effectively block the road to the creation of new debts. In short, they are deficient in both cash and credit.

As to actual present stocks of goods, a survey of leading lines reveals very wide variations of inventory position. The difficulty of appraising individual inventory positions in relation to normal demand is that no one knows what "normal" demand is or will be. In some industries, notably cotton textiles, lumber and newsprint, inventories have been rigidly reduced by an effective control of production, brought about by joint action of the producers. In such cases it would be easily possible for a revival of consuming demand to bring on at least a temporary period of intense manufacturing activity. Yet the basic fact remains that in cotton textiles, lumber and newsprint there is an excess of producing capacity which in a few months' time could swamp any conceivable consuming demand. For this reason low inventories would appear to be of transient, rather than enduring, business significance in these industries.

Accumulated Replacement Demand

In the automobile industry we have a clear-cut instance of accumulated or accumulating replacement demand. The life of a car, although longer than most individuals imagined in 1929, is nevertheless limited. It is quite likely that the wearing out of existing cars has already built up a potential demand which, given the financial means for satisfaction, could give the industry a year or so of activity. Human desire and human purchasing power, however, are not identical. In relation to current demand, automobile inventories are not low. Moreover, in considering the business significance of potential demand, we cannot ignore the significance of potential production. There is an excess of motor-producing facilities which constitutes a definite, long-term depressant on the industry's profits.

In the majority of raw materials stocks are obviously excessive, not only in relation to current demand but in relation also to any probable near-term gain in demand. To mention only a few basic products, there are excessive world surpluses of wheat and cotton, copper, tin, rubber,

(Please turn to page 570)

Comparison of Retail Sales and Stocks in the Hands of Retailers

	Stocks on Hand End of Year, at Cost	Annual Sales
Year 1929 (millions of dollars)...	$7,262	$49,115
Year 1930 (estimated)*	6,650	44,000
Year 1931 (estimated)*	5,480	37,500
Year 1932 (forecast)*	4,403	31,000

Comparison by Group

	Actual, 1929 (Retail Census)		Forecast, 1932 (by John Guernsey)	
	Stocks, End of Year, at Cost	Sales, Year (in millions	Stocks, End of Year, at Cost of dollars)	Sales, Year
Food group of stores	$601	$10,837	$450	$8,400
Restaurant group	42	2,125	33	1,600
General merchandise group	1,277	6,444	830	4,100
Apparel group	1,018	4,241	650	2,630
Automotive group—vehicles	623	6,294	270	2.650
Automotive—accessories, gasoline, repairs	270	3,322	195	2,400
Furniture group—except appliances	595	2,375	325	1,240
Furniture group—electrical appliances	61	380	48	290
Office appliance group	52	324	27	155
Lumber and building group	555	2,621	240	1,140
Hardware and farm implements	386	1,224	235	730
Drug stores	374	1,690	250	1,150
Jewelry stores	308	536	125	200
Country general stores (50 to 60 per cent food)	546	2,571	380	1,800
Second-hand stores	45	148	35	115
All other retail stores	509	3,982	310	2,400
	$7,262	$49,115	$4,403	$31,000

* Estimates and forecast *based* upon price and sales indexes and financial statements of representative companies, each kind-of-business group computed separately and added to obtain totals shown above.

¶ *Are We Attempting to Remedy the Effects of 1929 With More of the Same Medicine?*

If Inflation "Works"

A Sudden and Comprehensive Ascent of Prices and a Quick Expansion of Business is Possible . . . Then?

By Theodore M. Knappen

THE gasoline tank of the business motor is full. The carburetor is getting a measure of confidence to mix with the gas in due proportions. The batteries are being charged. The mechanics are at work on the ignition. If they succeed the engine may start with a roar at any time. Inflation may succeed deflation with startling suddenness.

The United States Government and the Federal Reserve System are now engaged in the most stupendous effort in all history to check deflation and convert it into inflation. Business has been deflated until it is only skin and bones. If the process goes much further the patient's vitality will be so exhausted that his recovery may be a matter of many years.

The situation invites and the public demands heroic curative measures. The die is cast. The cumulative offensive against business deflation now becomes a charge in full force, by command of the President and the co-operation of big business. Will it be victorious? Will it be ignominiously defeated? If it succeeds will it be controlled and restrained or will discipline relax and the fruits of victory become mere individual loot resulting in a demoralization of the forces of prosperity and new defeat?

The supreme effort to conquer depression and win prosperity divides itself into two parts. These are (1) restoration of confidence and (2) the production, assembly and vigorous utilization of implements of economic activity.

Rescue Measures and Results

The measures taken to attain these ends include the National Finance Corporation, the Railway Finance Corporation, the Reconstruction Finance Corporation, the Glass-Steagall Act, the Federal Home Loan Bank System, the authorization of a billion dollars of new national bank currency, a billion-dollar open market operation by the Federal Reserve Banks, low Reserve discount rates, the 2,100-million-dollar Emergency Relief and Reconstruction Act, expansion of Federal Reserve currency by upwards of a billion dollars, the bankers' bond pool, the Owen D. Young committees in the Federal Reserve districts and the Commodities Finance Corporation. In terms of currency and potential credit the Federal government has probably massed no less than 20 billion dollars for the campaign to reconquer prosperity. Never was there such a financial armada since history began.

The claimed achievements of this vast armament up to date are the almost complete stoppage of bank failures, overwhelming repulse of the run on the dollar and its triumphant restoration to the first place in world esteem, reversal of the flight from the dollar, prevention of many disastrous business failures at key points, including the redemption of one great bank whose failure would have carried the whole Middle West down with it, support for gasping railway systems, financial props for life insurance companies, building and loan associations, agricultural credit corporations, advances to suspended banks, advances to Federal Land Banks, Joint Stock Land Banks and Intermediate Credit Banks, revivification of the securities markets. And in general the restoration of confidence and the dispersion of a deadly apprehension of a climactic panic and collapse.

This reinforcement of the battle line against depression has already involved authorized loans amounting to 1,200 million dollars and before the combat is over may absorb the entire 3,800 millions of Reconstruction Financial Corporation capital.

Curing Debt by More Debt

Whatever the final amount may be, it should be noted that it is new public debt—that new debt is being used to finance old debt. The old debt is mainly private and the new debt is almost wholly public. The credit of the government of the United States has been drawn on in volume only surpassed in the time of the World War, for the purpose of substitution for private credit. A tremendous risk of new debt is being faced to rescue business from old debts, unparalleled in amount.

We have here a huge inflation of credit entirely independent initially of banking credit in its application and distribution. In the end, however, the banks are drawn in Government bonds covering the 500 million dollars of original capital of the Reconstruction Finance Corporation and the corporation's own obligations must be subscribed by the public with banking co-operation. Capital and credit are drawn upon to effect a governmental purpose. If this purpose were effected by the printing of treasury notes it would be direct currency inflation. As it is the purpose is effected through credit inflation. The Government supplies new money in effect for a particular purpose just as much as if it had recourse to the printing presses. The difference is that this credit is in theory automatically retired as fast as frozen private credits thaw out. But for a long time there will be a thick layer of new credit which serves no purposes except to take the place of frozen private credit. Under favorable conditions the thawing may proceed faster than the retirement of the governmental credit. To the extent of the overlap there will be a measure of easy credit which may be the means of developing trade in-

flation once the current sets powerfully toward recovery.

A second factor of credit inflation in the sense that it is expansion not in response to the requirements of expanding business is the Glass-Steagall Act, which permitted the substitution of U. S. Government obligations to a certain extent for commercial paper as collateral for Federal Reserve Bank borrowings and cleared the way for stupendous open market operations. This resulted in a large decrease in the ratio of Federal Reserve gold reserves to deposits and note issues. It increased the amount of free gold in the Reserve Banks at a time when its total holdings of gold were falling rapidly. In a period of 25 weeks those operations resulted in the purchase by the Reserve Banks of more than 1,100 million dollars of United States obligations, the reduction of member bank indebtedness of 400 millions, the financing of gold exports to the extent of 450 millions and an increase of 250 millions of excess reserves of member banks.

This credit expansion has not "taken" as yet in the manner and degree that were expected. But it has created the makings of some business fuel of a highly volatile if not explosive nature. While member banks have continued to reduce their loans to the public they have been also reducing their discounts with the Reserve Banks and increasing their reserves. They are in a highly liquid condition. And the Reserve banks have in their 1,850 million dollars of Government bonds—unprecedented in amount—a potential source of vast inflation. The Reserve authorities, confident that they have turned the trick, have now ceased their extraordinary open market operations. The business horse has been provided with an abundance of credit water. It now remains to administer enough salt to make him thirsty.

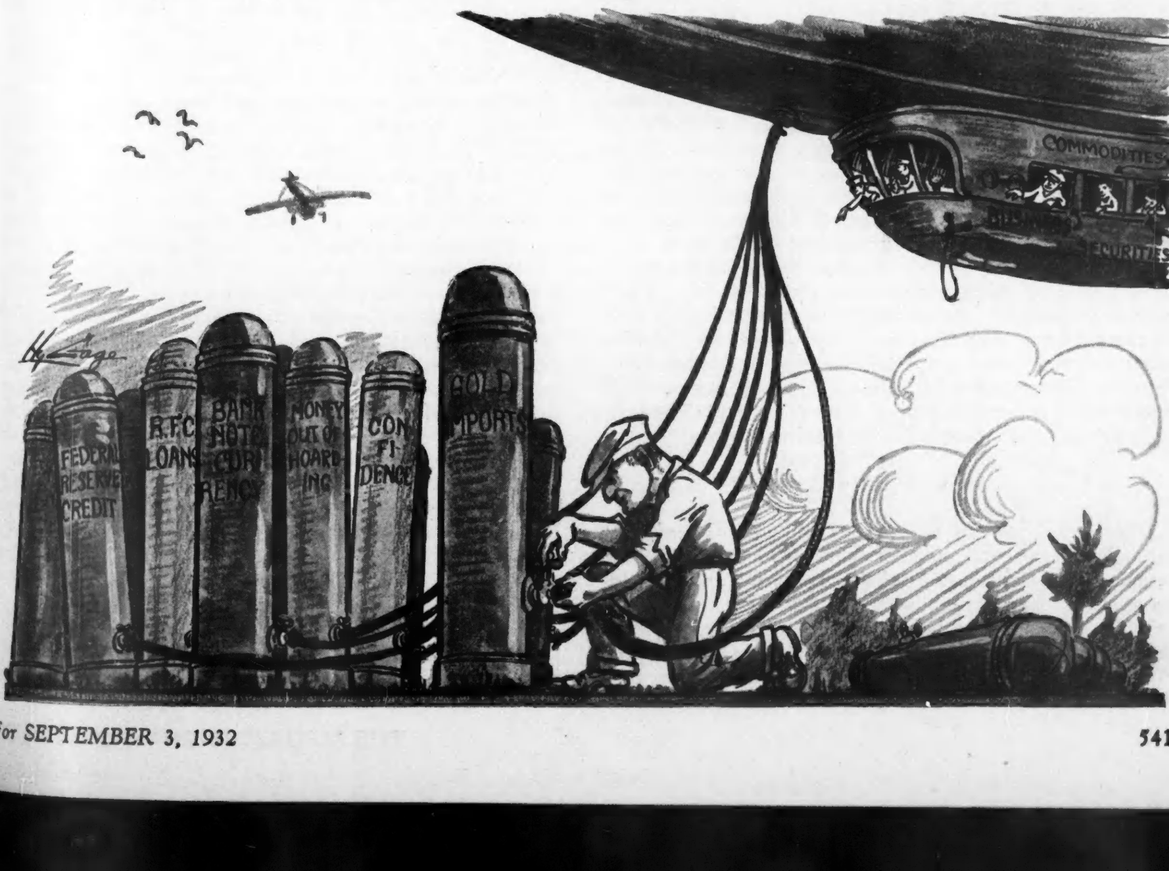
Currency Expansion and Hoarding

While panic fear was raging between July, 1931, and February, 1932, the hoarding withdrawal of money from actual circulation drew out an additional 800 million dollars of new currency to fill the vacuum. This amount has since been somewhat reduced, but it is estimated that around a billion dollars of money is still in safe deposit boxes and secret hiding places—completely isolated from all use. The net result is that the country, with business at a low ebb, has hundreds of millions of more hard money at its disposal than it had in boom times. With growing confidence the hoarded billion may rush back into the banks like a mountain torrent, creating intense pressure in the direction of liberal lending by adding something like 10 billion dollars of banking credit capacity. At the same time the quasi-hoards of billions in inactive bank accounts may be released.

Direct Currency Inflation

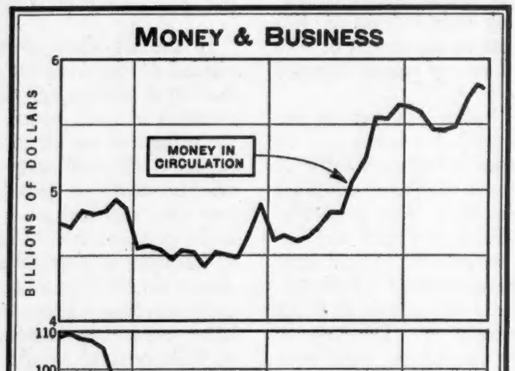
In the last days of its recent feverish session Congress yielded to the insistent demand for currency inflation by making it possible for the national banks to put out almost a billion of bank notes. This huge sum may be added to the volume of money in circulation once the business stream begins to rise and surge. While the new bank notes may quickly return to their home banks for redemption if business does not feel the need of them, it will require but a slight augmentation of the demand for currency and credit to keep them in rapid circulation. They may, then, constitute a net addition to circulation or they may displace a corresponding amount of Federal Reserve notes. In the latter event it is conceivable that about 500 million dollars of Reserve notes would be replaced—if the member banks should utilize the new currency to wipe out their indebtedness to the Reserve Banks. As the new bank notes have a gold reserve of only 5 per cent, as against a required 40 per cent for Reserve notes, a margin of possible inflation would be added to that dependent upon actual circulation of the bank notes.

It is true that the new circulation is limited to three years but in view of the traditional attitude of Congress toward the reduction of the volume of currency it is altogether probable that the privilege will be continued indefinitely. We have here, then, the probability of a perma-



nent addition to the currency of about 20 per cent of the amount normally in circulation. With recovering business straining at its bonds this will be an important fact in inflating, or, if you prefer, reflating prices. It will be a factor, too, entirely beyond any regulation by the Federal Reserve system. Consequently it may contribute to an excessive expansion of business quite out of proportion to its size.

While currency is being expanded both through Treasury and Reserve action, the foreign world, confessing complete rout in its final attack on the gold dollar, has been sending back its money to what, in quick reversion of feeling, it now believes to be the best place in the world for safety and investment. Gold is steadily flowing back to the United States and enlarging the credit base as well as stimulating the pressure for credit release.



The sum of all these improvements in the potential ease of the money market is, of course, to whet the appetite of the banks for business. They have been living on starvation rations from reduced loans too long, not to yield before long to such business encouragement as may come along, and shed their depression aloofness.

While these various steps in restoring the mechanism of the complex fabric of business and finance have been going on, confidence has been reviving. The public is now convinced that the elusive corner of the depression has at last been turned. That may possibly not be the fact; but the corner is a movable one, and one of the forces that can move it is confidence. The amazing revival of the securities market since the middle of July, not only records the rise of confidence, but gives it food upon which to feed. This is true also of commodity prices, which have risen for six successive weeks—only moderately on the average but rather convincingly. This also feeds confidence—as do also the stoppage of bank failures and trickling reports of the resumption of industrial production and employment.

The continuation of the recession of business activity, the omission of dividends and the certainty that third-quarter corporation reports will be more dismal than ever, do not suffice to check the rise of confidence. All are discounted by the growing public belief that the stormy Cape Horn of the depression has been rounded. It matters little that the ship is perhaps leaking worse than ever. The public begins to believe that it has been definitely saved.

Making Inflation Inflate

The second half of the process of curative treatment through governmental initiative is now about to swing into action. The economists of the Government and the Reserve system have from the start of the great adventure in willed recuperation held to the view that cure of the destruction of business tissue is only a part of restoration. After the patient has been rescued from dissolution, they have held, he must be subjected to some artificial exercise in order to give a quick start to body-rebuilding activities.

This artificial exercise is now coming in the way of deliberately created business activity. To change the figure of speech to one employed at the beginning of this article; the gasoline having been supplied, the engine is now to be turned over with the crank. The succeeding revolutions of the engine are counted upon to build up the exhausted batteries and eventually make the ignition automatic. This is the objective of the President's Conference on Credit and Employment.

The cranking consists of the artificial activities to be produced by the expenditure of more than 2,100 million dollars in public works, largely of a self-liquidating nature, security pool activities, stimulated buying of commodities, expansion of the use of trade acceptance, and diversion of bank funds from phlethoric to attenuated regions. The Reconstruction Finance Corporation, with enlarged capacity and added functions, now becomes an instrumentality of construction as well as one of rescue. Besides its public loans the corporation is now out to finance business enterprises of a commercial nature as well as to finance many forms of physical construction, including extensive housing projects. The Corporation is now in fact an active banking institution—the largest bank, as regards capital, in the world. It is predicted by Senator Wagner that these activities will eventually put 2,000,000 men to work.

All of these stimulative measures may well result in a torrential inflation of business activity. Even without them the revival of public confidence may supply enough energy to bring a semblance of prosperity back with a feverish velocity. The setting exists for a tremendous inflation of credit if the business spirit moves. If, however, the burst of confidence, the fundamentally salutary influences of deflation, and the artificial measures do not suffice there is a possibility—ominous or auspicious, according to the point of view, that may have at the next session of Congress wholesale price inflation by fiat. The Democratic vice-presidential candidate, recently reiterated his favor of legislation aimed at raising the price level to the 1926-29 height. This might be accomplished under favorable business conditions by continued inflative credit operations by the Federal Reserve, or by such a radical measure as the direct devaluation of the dollar through reduction of the number of grains of gold in the standard dollar. The belief is firmly held in many quarters that prosperity will not generally return until the oppressive burden of debt is scaled down. The alternative to reduction by default, insolvency, bankruptcy or friendly compromise is a higher price level.

What May Happen

If, from whatever cause, there should be a sharp increase in price levels the appreciation in both stocks and bonds would be marked. Confidence alone has favorably

(*Please turn to page 572*)

Merchant Meets Landlord in Vital Struggle

Investors in Merchandising Securities Are Anxious Spectators as Both Sides Fight for Existence Over Crucial Lease Question

By John C. Cresswill

Note—This article is supplementary to The Pyramid of Inflated Real Estate values, which appeared in the issue of August 20, 1932.—Editor.

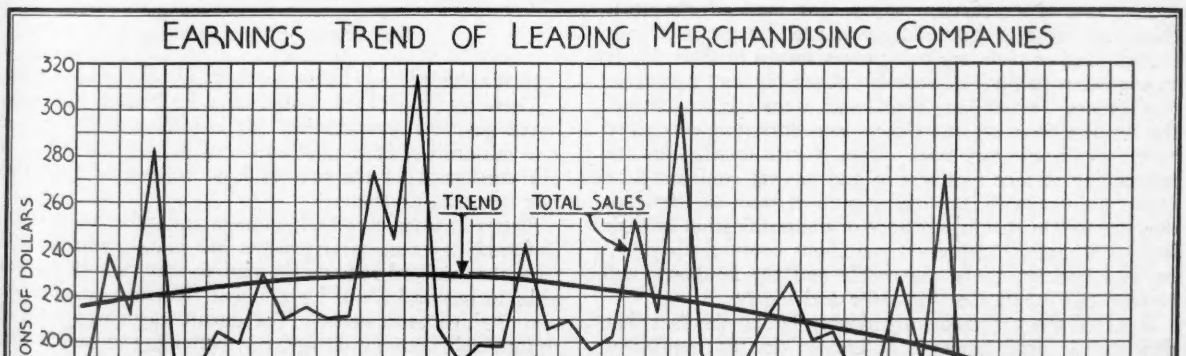
ALL over the country a grim business battle is being fought to the bitter end. On the one side are the landlords, on the other the tenants. It is a classic example of "natural" business readjustment on a colossal scale. Every Main Street in the country is the battle field. Every store on it and every landlord in his office are the combatants.

The merchants have taken their licking from deflation—deflation of prices and deflation of volume and they are taking it out en masse on the landlords.

The situation is one of life and death on both sides; and every artifice is being resorted to by both to save their skins. Every merchant great or small, is wrestling with his landlord, but in the national panorama of the contest the chain stores are in the center of the scene. The rent factor is a large one in this conclusion of the Chain Store Research Bureau:

"We are of the opinion that there are practically few retailers or chains in this country that can actually readjust their conditions to purchasing power without going through a receivership."

This does not mean that all the chain stores will be recast by receiverships, but it does mean that unless there is an increase of purchasing power the pressure of deflation will inexorably bring about a readjustment through the harsh process of receivership or worse. The only alternative is inflation of commodity prices and the revival of employment, wages and salaries, and purchasing power that is counted upon to attend it. In the meantime the stores can only stave off disaster in a race with general deflation by cutting their losses to the absolute minimum. With every other factor already reduced to the minimum the whole desperate power of the chains is being turned to the



reduction of rents. There is no escape from the facts.

Drugs can stand a rental of 7 per cent of gross sales, groceries 2½ per cent, five-and-tens 5 per cent, apparels 10 per cent. Broadly speaking that is the statistical ultimatum to both renters and landlords. It demands re-adjustments of hundreds of thousands of leases made when merchandise prices were high and the volume of sales large. It is driving the weaker chain stores into receiverships and it is undermining the whole rental structure of the nation, exercising a dynamic force to write down real estate valuations. Every chain that appeals to the courts for relief and comes out of the process shorn of the impossible rents it was paying makes the sledding just so much harder for the others. It is a more dangerous competitor. Every landlord who surrenders makes the battle harder for his fellows. Every tenant who wins helps his competitors to win. It is a scene of jungle business survival of the fittest that delights the cold eye of the *laissez faire* economist.

Twilight of the Weaker Chains

So far the chain store casualties have been mostly confined to the newer and weaker chains that were formed between 1925 and 1929 when the chain store fever was raging wildly throughout the country. Their leases, of the former long periods, were made at top prices as the result of keen competition for desirable locations. That was the landlord's day in the sun. Rival chains bid rates up and boomed commercial real estate; every landlord who closed a lease at an incredible figure was likely to be seized with poignant regret the next day. It was part of the mass madness of the years that preceded the debacle. Some of these mushroom chains—with dollar sales volume cut in two—found themselves without a possibility of retrieval. At least 75 chains have gone into receiverships or outright bankruptcy or have surrendered themselves to the mercy of their creditors in some other way.

The chains that were established before the chain store fashion began to rage violently are generally in a better position. Although it had been stated that no great national chain was in immediate danger, the United Cigar Stores Co. entered voluntary bankruptcy on August 29, that action being deemed necessary because of real estate operations the company assumed in prosperous times. But it is a safe generalization to say that most of the great chains are more or less seriously affected by the rental situation. All of them are using every means in their power to compel reductions of rentals. Some are better situated than others. Many long time leases were executed before the business boom set in. Others were fortunate enough to have five- or ten-year leases. Even if such leaseholders are not willing to face receivership and are yet confronted by inexorable landlords they derive comfort from the fact that they are within striking distance of the termination of their leases. If present depressed conditions continue they will be in a position to be inexorable and the landlords will become the supplicants for favor and mercy.

Some of the big chains are doubly hit by the fact that they are at once lessees and lessors. In the munificent days it often happened that in order to get a desirable store location the chain was compelled to lease not only the other store spaces in the building but the office space above as well—the whole building in fact.

Pity the Poor Landlords

It would not be fair to leave the impression that the landlords are ruthlessly taking advantage of their helpless tenants. They may be up against ground leases at figures that are now merely mementos of bygone times. They have fixed interest charges to pay, taxes have not yet come down to any appreciable degree and insurance rates have not altered. Like the stores, they are often fighting for their business lives. They may have been barely on the black side of the ledger when business was still brisk. Rental reductions will put them into receivership or bankruptcy and are daily doing so. Faced by irreducible charges on the one hand and by torturous practices of recalcitrant renters on the other, nothing can save them. In a multitude of cases, if the stores can hang on long enough, the premises and the landlord will be deflated to dissolution, and with new proprietors in possession at salvage values the stores can compel new terms.

In the many cases, according to the evidence at hand, landlords and tenants recognize their condition of common misery—their fellowship in adversity. After the bluffing and wheedling is over, after the owner has been worn down by withholding of rent payments and threats of submission to receivership, after the chains have been rendered desperate by the firmness of the landlords, they strive to get together.

Each side suppresses its pugnacity and moderates its wrath, the cards are placed on the table right side up and rational negotiations are entered upon. Both sides view the issue not only as it is today, but as it will be in the future. The store men seek new terms that although endurable now will be gold mines when the business revival sets in. The landlords, if making concessions now, seek to make up for present sacrifices when prices rise and volume of business returns.

Both sides temper their position by the confidence that business will soon improve. The chain is not willing to impair its prestige and standing by resort to receivership and abandonment of choice locations. The landlord is loath to lose a good tenant, but he sees a time coming when other desirable tenants will be in the field. It is said to be surprising how difficult it is even now to obtain rentals at figures that would be considered unreasonably low when the volume of business comes back. There is also the fact that while the landlord knows that his present returns are too high for the particular unit involved, the chain as a whole may have reasonable rentals—partly due to long-time leases before rents went up and partly to the steady expiration of inflated leases.

The Ways of Readjustment

Readjustments are being worked out in various ways. There may be (1) an unqualified reduction, (2) a deferred payment arrangement, (3) cancellation of the lease and substitution of a new one, (4) partial surrender, or (5) conversion of the present lease from fixed payments to a percentage scale.

Flat reductions of rental amounts are rather uncommon. Deferred payment arrangements are more common. In these the landlord reduces the rent for the time being, but seeks to recoup himself by a higher than the existing rate two or three years hence. The tenant, eager to get rid of an intolerable present charge, may be willing to gamble that better times will make it practicable to pay higher rent than he has been paying. When a lease has only a short time to run, the tenant is in a good position to insist on a new lease based on present rental values. Rather than take the chance of having a vacant store in the near future, the landlord may prefer a new long-time lease at present levels. In other cases the tenant offers to give up part of his space with a proportionate reduction in his amount of rent. This looks good to the landlord only in case he may be faced with vacation of the store. Perhaps the most

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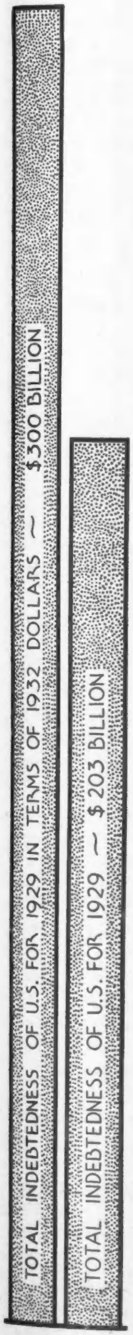
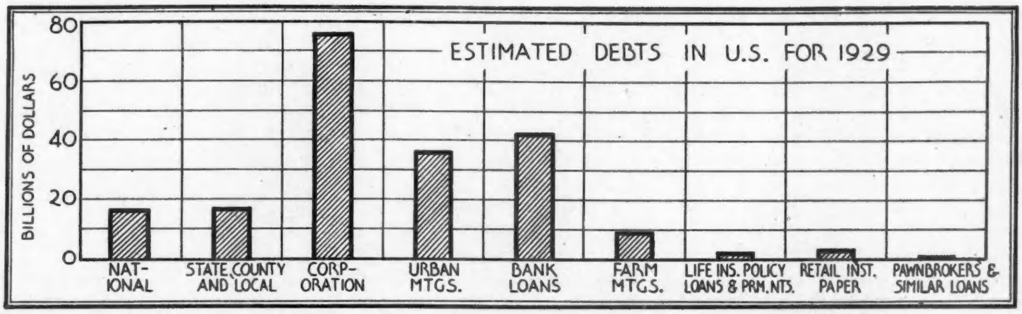
How Much Do We Owe?

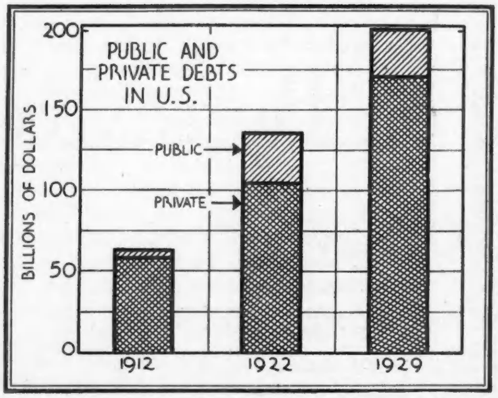
And What Are We Going To Do About It?

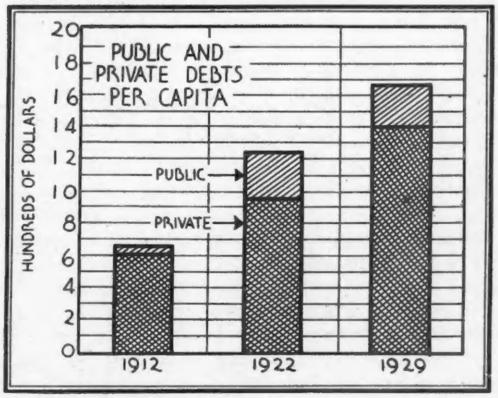
By Warren Beecher



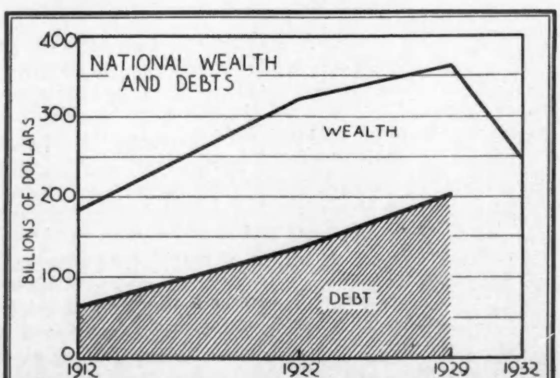


The gain in both public and private debts since 1912 is shown below, both for the country as a whole and on a per capita basis. Note the gain in the proportion of public debt between 1912 and 1922 as a result of war expenditures, followed by a great increase in private indebtedness during the boom.





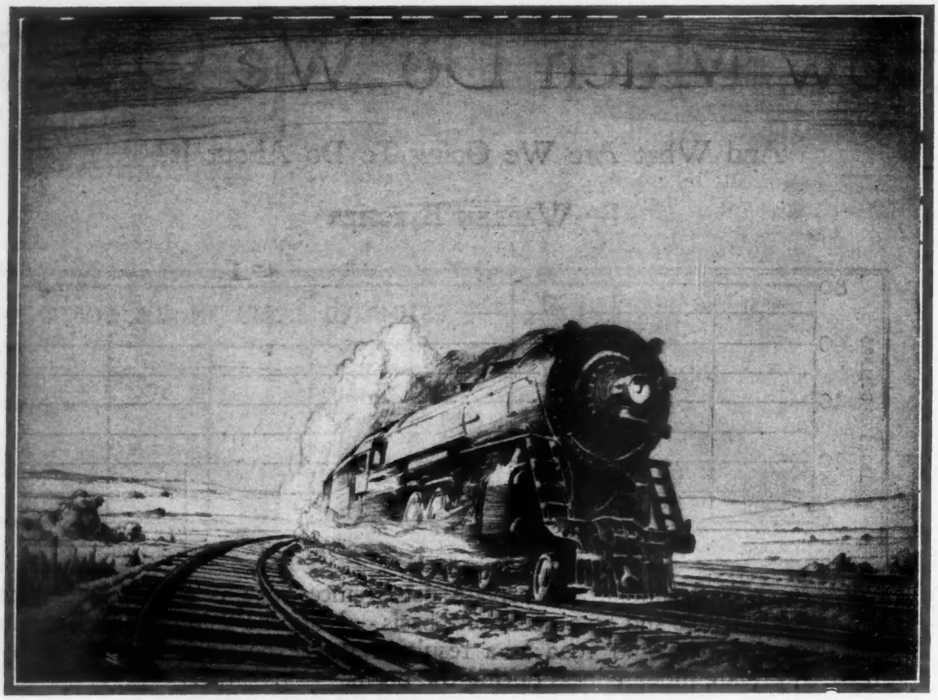
In 1912 our total of debts was 34% of the national wealth. By 1922 the proportion of debts had increased 42%. In 1929 debts were 56% of national wealth. Today with our debt total fully as large as in 1929 and national wealth down at least one-third, debts amount to 80% of the total wealth.



The Debt Burden Can Be Lifted in Three Ways

1. **By readjustment of indebtedness through governmental decree, moratorium or voluntary concessions by landlords, bondholders or other creditors.**
2. **By default, receivership and reorganization.**
3. **By a rise in the general price level, either natural or induced by inflation, which would permit gradual discharge of indebtedness at a level at or near which the obligations were contracted.**

For the years 1912 to 1929, debt estimates by G. F. Warren for the Committee on Banking and Currency, U. S. Senate, May, 1932. Wealth estimates by National Industrial Conference Board.



Etching by Otto Kuhler. Courtesy, Schwartz Galleries

Railroading on Borrowed Money

Which Roads Are the Borrowers From the R. F. C. or the Banks and Which Are Standing on Their Own Feet?—An Important Question to Investors

By Pierce H. Fulton

"HERE in New York the idea seems to be that a dollar borrowed is a dollar made. I was not brought up that way in the West, but rather to the idea that a dollar borrowed had to be paid back, and that until it was done the borrower was just that much worse off than he was before he made the loan."

This is the substance of a statement to the writer by a prominent executive of one of the very few railroads that has not borrowed during the period of depression and that is not likely to, unless the improvement in traffic and earnings now expected within a reasonable time is still longer deferred.

With all the movements that have been set on foot by the government at Washington and in the leading financial centers, with the extent to which credit has been made available by the Reconstruction Finance Corporation, Federal Reserve System and private financial institutions throughout the country, the idea that "a dollar borrowed is a dollar made" seemingly has become strikingly general, the result being almost an epidemic of borrowing, with millions more of loans in the making. In fact, new purposes and ways of borrowing money are being brought forward nearly every day.

This borrowing by no means has been confined to individuals but has included corporations, large and small, banks, large and small, towns, municipalities, states, some of which seldom, if ever, have borrowed before. All these and more have had to borrow extensively to keep out of receivership or bankruptcy and to meet obligations other than interest charges. All but a few of the strongest railroads have borrowed wherever they could get the money, from private banks, the Railroad Credit Corporation, and most of all, the Reconstruction Finance Corporation.

Up to August 1 the railroads had borrowed from the

Railroad Credit Corporation, solely to pay fixed charges, $28,388,464. An additional $5,800,000 has been approved. From the Reconstruction Finance Corporation to August 3, loans to the railroads totaled $247,586,108, the proceeds to be used in meeting maturities, taxes and various other items, some of them dating back to the latter part of 1931. In the meantime loans approved by the Reconstruction Finance Corporation have been increased materially.

Total fixed charges of Class I railroads now amount to about $500,000,000 a year. It is estimated, on the basis of results for the first six months of 1932, that net railway operating income of these carriers for the full 12 months will not greatly exceed $200,000,000, leaving close to $300,000,000 to be obtained from other sources to avert receiverships. The greater part of this amount will have to be borrowed. A handful of the very strongest individual roads and systems will be able to make up their deficit, if there be one, out of treasury funds. Which of the roads can "go it alone"—which will have to borrow—that is the big question.

Can the Debt Load Be Carried

In view of the recent big rise in railroad bonds and stocks and the renewed and continued inclination to buy them on a large scale, it is vital for everyone with the intention of making new commitments as well as present holders, to know the extent of the funded debt, before most of the railroads got into financial straits, short term loans to date, and probable further borrowings of the latter kind that may be necessary until the real turn in the business situation comes. Upon the extent of fixed and other interest charges, the extent to which these obligations may be further increased, and the extent to which earnings improved, depends largely the nearby future of the railroads, and their real value, regardless of daily price changes, large or small, for the securities.

Just now it is too easy to borrow and too hard for the railroads to earn for themselves. In the former there is real danger, although the proceeds of the loans may be used in part to help bring about the general economic recovery, so greatly desired. The need of borrowing must decrease and the ability to earn increase correspondingly, if the railroads as a whole are to get on their feet and truly prosper again.

Without these important changes in their position, it will be found that the recent big advances in railroad stocks and bonds had little or no real foundation. As a matter of fact, substantial improvement in earning power and actual earnings, which would reduce proportionately the need of further borrowing, is generally expected. Otherwise, the advance in railroad securities could not have been carried to anything like the extent that it has or maintained, as long as it has been.

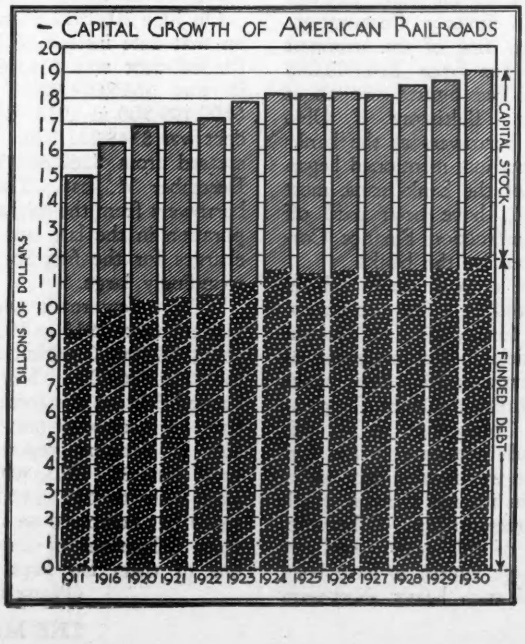
At least a rough idea of the present position of the railroads as to their funded debt now and shortly before the World War, short-term borrowings to a recent date, and probable need of more money during the rest of this year, may be had from a few figures. For the first six months of 1932, 167 Class I railroads of the United States had net railway operating income of $112,329,374 compared with $240,504,555 for the corresponding period of 1931. Of this number of roads 69 operated at a loss during the first half of this year. This means that they did not earn operating expenses, and nothing for fixed charges. Those that did not have the funds in their treasury—and their number was very small—had to borrow.

Individual Cases

Take a few large individual roads and systems. New York Central failed by $11,051,146 to earn its fixed charges for the first six months of this year. Southern Pacific fell short by $5,479,048. Balitmore & Ohio's net loss on fixed charges for the first half of this year was $4,752,299, Chicago & North Western lacked by $960,169 of earning operating expenses, while it fell behind on fixed charges to the extent of $7,594,009. Results on other Northwestern roads were particularly bad for the period in question, Great Northern reporting a net operating deficit of $3,082,979 and net loss on fixed charges of $8,891,219. Northern Pacific's net operating deficit was $1,524,640 and net loss $4,782,089. In the Southwest, even the Atchison, one of the best managed and largest earning roads in the whole United States, did not earn its fixed charges by $1,927,797 for the first half of this year.

Of these representative and important systems, a few were able to meet their losses out of treasury resources. This was notably true of the Atchison, which was the strongest of them all as to cash and government securities on hand. As a matter of fact, that company was able to make up its entire net loss of nearly $2,000,000, during the month of July alone. Neither Great Northern nor Northern Pacific has had to borrow as yet. New York Central, Southern Pacific and B. & O. were compelled to do so to cover, not only their deficits on fixed charges, but other pressing obligations as well.

On February 20 of this year, this magazine published an article that dealt primarily with railroad maturities in 1932, but which also showed funded debt on December 31, last, gross earnings of 17 representative roads for 1931. It is a striking fact that the roads with the heaviest funded debt then have been in the meantime, and will continue to be, the heaviest short term borrowers.



Investors should attach much importance to the fact that in the recent almost sensational rise in some railroad bonds and stocks, and the substantial upturn in that group as a whole, the issues of the companies with the largest funded debt and the smallest gross earnings for last year, as shown in that article, have, with few exceptions, gone up the least. Those of the companies in the worst position have had only relatively small advances. It is gratifying to note that would-be buyers of railroad securities have seemed to realize which were the safest mediums for their money, and likely also to have the biggest price appreciation.

Securities with real asset value are the only cheap ones, al! the rest are dear at any price, until the earnings of the companies they represent are decidedly better than they have been for a long time.

At or about the highest prices for railroad securities on this recovery, it is even more important for investors to know the true financial position of the railroads than it was when the bonds and stocks of many of them were selling at, or close to, so-called receivership prices. When the railroads' own money began to run low and they realized the necessity of getting funds from other sources, they turned first to their banks and some of them borrowed extensively until the Railroad Credit Corporation and Reconstruction Finance Corporation were organized and put into operation.

Railroad Debt Position

The following table shows the funded debt of 17 representative railroads on June 30, 1913, and on December 31, 1931, together with borrowings from Reconstruction Finance Corporation up to recent dates, and net losses on fixed charges for first six months of 1932:

Name	Funded Debt 1913 (000 omitted)	Funded Debt 1931 (000 omitted)	Loans from R. F. C. (000 omitted)	Net Losses on Fixed Chgs. 1st 6 mos. 1932 (000 omitted)
Atchison	$319,146	$310,626	None	$1,927
Baltimore & Ohio	365,674	636,014	$67,125	4,752
Chesapeake & Ohio	133,936	227,851	None	*8,766
Chicago & Northwestern	190,199	348,231	6,643	7,154
St. Paul	299,554	481,048	8,000	14,158
Rock Island	201,487	317,918	10,000	5,384
Erie	201,810	269,211	2,775	(a)
Great Northern	251,269	355,560	None	8,891
Missouri Pacific	162,896	409,763	16,000	5,951
New York Central	377,595	670,581	18,000	11,051
Norfolk & Western	88,019	103,240	None	5,380
Nickel Plate	28,880	148,324	6,700	2,501
New Haven	59,779	260,136	None	*998
Northern Pacific	299,966	313,452	None	4,782
Pennsylvania	206,808	665,322	27,500	(a)
Southern Pacific	140,587	684,457	None	5,479
Union Pacific	343,955	357,646	None	6,578

* Net income. (a) Figures not available.

It is extremely difficult, except in the case of a few companies, to get accurate figures for what are known as short term bank loans. It is of record officially that New York Central has $64,900,000 of such obligations outstanding. This figure has been unchanged for some time, and the company has no intention of paying off any part of the total through a loan from the Reconstruction Finance Corporation. Delaware, Lackawanna & Western, one of the strongest and richest railroads for years, has from $10,000,000 to $12,000,000 of bank loans. The figures are about the same for the New Haven. Baltimore & Ohio and Southern Pacific were heavy borrowers at the banks before the two loaning organizations just mentioned began to put out their funds. A part of the bank loans, most of which were arranged in 1931, have been paid off through advances from the Reconstruction Finance Corporation, the balance being renewed by the banks.

Present or prospective owners of railroad stocks will do well to bear in mind that, with possibly a few exceptions, the railroads that had the biggest funded debt on December 31, last, as shown in the article in this magazine of February 20, were the heaviest borrowers from their banks last year, and likewise from the Railroad Credit Corporation and Reconstruction Finance Corporation so far this year. These borrowings were made necessary in the first instance, by the burden of the top-heavy funded debt under which they were struggling, and the interest thereon which they had to pay to keep out of receivership. Otherwise, their net losses for the first half of this year would not have been represented by such large figures as have been given already in this article, and such heavy short-term borrowings would certainly not have been so necessary.

In this connection it is particularly striking and important to note the big increase in the funded debt of those roads since 1913, or shortly before the beginning of the World War, up to the close of last year. Before taking up individual roads, it should be noted that the funded debt of Class I railroads as a whole increased from $9,169,699,475 in 1911 to $11,880,127,078 to the close of 1930. This was an expansion of $2,710,427,603. Of the $9,628,867,953 new securities issued by Class I railroads to the 11 years from 1920 to 1930, $7,444,287,784, or 77.3%, represented funded debt and only $2,184,580,169, or 22.7%, represented capital stock.

Now for a comparative glance at the funded debt of a few of the railroads that have been the biggest borrowers since the slump in earnings began near the close of 1929, and likewise of those that have come through the depression so far, not only without borrowing but with a substantial amount of quick treasury assets. From present indications, the latter will be able to "paddle their own canoe" until railroad earnings turn upward materially.

On June 30, 1913 (fiscal year of the railroads then ended on that date instead of December 31 as now), B. & O.'s funded debt was $365,674,325. On December 31, last, it was $636,014,000. Chicago & North Western had $190,199,500 in 1913, while at the end of 1931 its funded debt was $348,231,000. Missouri Pacific's funded debt increased from $162,896,000 in 1913 to $409,763,000 on December 31, last. These three roads have been heavy borrowers from the banks and Reconstruction Finance Corporation in the last two years. Their net losses on fixed charges for the first six months of this year were correspondingly large.

Take a few roads whose funded debt did not greatly increase from 1913 to 1931. That of the Atchison dropped about $8,500,00 within that period or from $319,146,148 to $310,626,000. Northern Pacific had $299,966,000 funded debt on the former and $313,452,000 on the latter date, an increase of only $13,486,000 in 17½ years. Norfolk & Western reported funded debt of $88,019,000 as of June 30, 1913, while at the close of last year it had risen only to $103,240,000. Not a single one of these roads has borrowed so far in the period of depression to meet obligations of any kind. On the contrary, every one of them has kept strong in cash, government and

(Please turn to page 575)

BONDS

High Pressure Bond Market

Gilt Edge Issues Have Favorable Prospects but Speculative Issues Must Soon Have Justification for Present Levels

By J. S. Williams

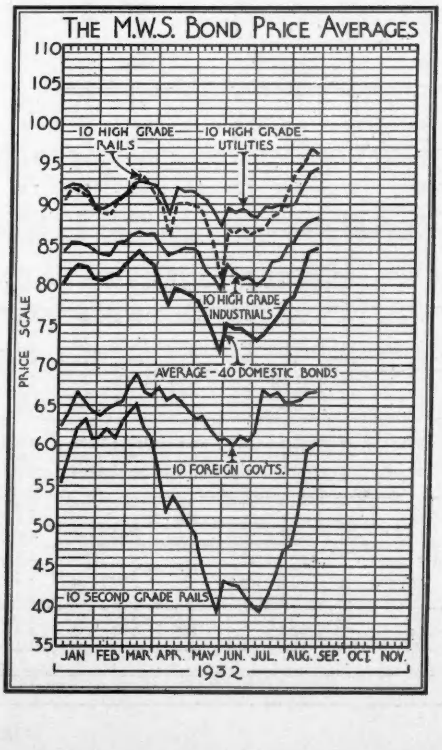
THE recovery in bonds, one of the broadest and most remarkable movements ever experienced in the investment market in so short a period of time, gives some evidence of growing hesitation and caution at this writing. Particularly in the more speculative railroad issues, reactionary tendencies are evident, although their possible significance in relation to the underlying trend of the market is by no means clear.

The market as a whole has recovered all of this year's decline and, in fact, is virtually back at the highest level of 1931. As was to have been expected, the widest advance has been shown in those issues which had suffered to greatest deflation. Many second and third grade bonds have doubled in value and some of the more radical speculations have advanced 200 to 300 per cent.

It need hardly be said that a movement so highly flavored with speculation justifies increasing caution on the part of investment buyers. It is true that the low prices of last May represented a wildly exaggerated fear and that many speculative bonds, as pointed out in this publication, then sold at quotations which would not even be justified by receivership and reorganization.

From such a level, a mere change in sentiment and a mere return to a rational basis of investment appraisal was sufficient to account for substantial rally. On this basis alone, however, it is difficult to justify the recent excited extension of the advance, especially in speculative issues. Advances of 3 to 5 points a day are clearly the reflection of none too sound buying in a market temporarily "thin" in offerings.

After such a recovery a time inevitably comes when something more than confidence is needed to advance prices further or even to sustain them. That time appears either to be here or nearby. It is obvious, of course, that the market has run far ahead of tangible business gains. Indeed, it is probable that not a few second grade bonds have discounted considerably more business improvement than can reasonably be expected for a period of many months.



Bonds sell only in part upon confidence. Behind every good issue is a real earning power which makes interest payment secure. In the vast majority of second grade bonds, in which public speculation has recently been most active, there has been little or no advance in the underlying base of corporate earning power. This is notably true of speculative railroad bonds. Rail traffic remains at a level of abnormal depression and it is out of the question to expect any such rapid reversal of the carloadings trend as we have seen in the securities markets.

Unless general business has a much faster revival than now seems in prospect, more than one railroad may well find readjustment of capitalization imperative late this year or early next year. It must not be forgotten that almost all of the weaker roads have been busily borrowing money from the Reconstruction Finance Corporation all year, thus adding to the burden of fixed charges. It would require a fairly early and complete return to normal rail earnings to make some of these burdens supportable.

Under the circumstances the present is a highly advantageous time for all investors to reconsider their holdings, bearing in mind that second grade issues have had a recovery far out of proportion to the advance in the highest grade bonds. An excellent way to make certain of this gain would be to dispose of all doubtful bonds and to put the proceeds either into short-term notes or into investment bonds of unquestioned merit. If we face a protracted period of easy money and business slowly struggling back toward normal, as seems probable, there is real reason for the gilt-edged bonds to advance further. Under the same set of conditions, bonds which are supported by marginal corporate earnings have no reason to sell at prosperity levels.

It is worth noting that banks throughout the country are taking advantage of the recovery to sell out doubtful investments and to strengthen the collateral loan structure. When speculative enthusiasm dies down, as it will, many profit-takers may find the market none too well filled with bids.

The Magazine of Wall

THE MAGAZINE OF WALL STREET'S BOND Appraisals of active and important bonds is presented in two parts. The sections alternate with appropriate alterations and additions, so that holders and prospective buyers of bonds may be constantly informed as to the effect of developments in the largest number of issues.

It is naturally understood that all the issues mentioned do not constitute recommendations, although the relative merit of each is clearly indicated. For those, however, who desire to employ their funds in fixed-income-bearing securities, we have "starred" those which appear to us currently the most desirable on an investment basis. Generally, commitments should be assumed in accordance with the discussion on the previous page.

Inquiries concerning bonds should be directed to our Personal Service Department.

Railroads

Company	Total funded debt (mil'ns)	Amount of this issue (mil'ns)	Fixed Charges times earned† 1929	1930	1931	Price 1929 High	Recent	Yield to Maturity	COMMENT
★Alleghany Valley Rly. Gen. (now 1st) 4s, 1942	608	20	2.3v	1.9v	1.3v	95	88	5.6	v Earnings Penn. R. R., guarantor—High grade.
Atlantic Coast Line 1st Cons. 4s, 1952	155	51	2.6	1.9	1.3	95	76	6.1	Reasonably well secured issue.
Baltimore & Ohio 1st 4s, 1948	627	157	2.0	1.7	1.1	93¼	82	5.7	Loss of earning power and large early maturities depress this strong issue.
Baltimore & Ohio Ref. & Gen. "A" 5s, 1995	627	125	2.0	1.7	1.1	103⅛	56	8.9	Subject $278 million prior liens. Hardly investment under present conditions.
Central R. R. of N. J. Gen. 1st 5s, 1987	57	49	1.9	1.5	1.0	111⅛	93	5.4	High grade, but debt per mile is large.
★Chesapeake & Ohio 1st Cons. 5s, 1939	224	30	4.6	4.3	3.5	104⅛	104	4.3	First mortgage on the best part of the system. Highest grade.
Chesapeake & Ohio Gen. 4½s, 1992	224	50	4.6	4.3	3.5	100¼	94	4.8	Subject to some $42 million prior liens.
Chesapeake & Ohio Ref. & Imp. 4½s, 1995	224	35	4.6	4.3	3.5	..	86	5.3	Subject fairly large prior liens, but sustained earnings reassuring.
Chicago, Milwaukee, St. Paul & Pacific Mtge. 5s, 1975	477	106	2.2	1.3	.7	94¾	35	..	Junior issue and failure to earn charges disquieting.
Cleveland, Cincinnati, Chicago & St. Louis Ref. & Imp. "E" 4½s, 1977	173	65	2.8x	1.6x	1.0x	100⅛	63	7.3	x Earnings are N. Y. Central's, lessee of the road.
★Erie Railroad Cons. Prior Lien 4s, 1996	288	35	1.8	1.3	.9	88	75	5.4	Unlikely to be disturbed under any circumstances.
Great Northern Gen. "E" 4½s, 1977	355	206	2.4	2.0	1.3	97⅝	64	7.2	Secured by entire property and Burlington stock. Prior liens total $104 million.
Kansas City Southern 1st 3s, 1950	52	30	2.2	1.5	1.1	88⅝	65	6.3	Reasonably secure obligation.
★Lake Shore & Mich. Southern 1st 3½s, 1997	670	50	2.8y	1.6y	1.0y	81½	77	4.6	y N. Y. Central's earnings, assuming co.—high grade.
Lehigh Valley Gen. Cons. 4s, 2003	90	72	2.1	1.4	.7	90	51	7.9	Anthracite traffic drastically lower.
Long Island R. R. Ref. 4s, 1949	51	27	3.0	3.2	2.9	92¼	86	5.2	Guaranteed Penn. R. R. Road's own income holds comparatively well.
Morris & Essex R. R. 1st Ref. 3½s, 2000	..	35	2.9w	1.8w	1.1w	80½	73	4.8	w Earnings D., L. & W., guarantor—Well secured issue.
New Orleans, Texas & Mexico 1st Mtge. Ser. "A" 5½s, 1954	45	43	1.5	1.2	.6	105⅛	42	14.1	Lacks junior issues to cushion effect of traffic decline.
★Northern Pacific Prior Lien 4s, 1997	313	107	2.5	2.2	1.6	91¾	84	4.8	Strong, well secured issue.
★Pennsylvania R. R. Cons. 4½s, 1960	608	93	2.3	1.9	1.3	101½	96	4.7	Subject only to small divisional issues. Strong investment.
Pennsylvania R. R. Gen. 4½s, 1965	608	285	2.3	1.9	1.3	100½	83	5.6	Junior to the consolidated mortgage bonds. Reasonably good investment.
Pennsylvania R. R. Deb. 4½s, 1970	608	60	2.3	1.9	1.3	..	67	7.0	Unsecured obligation. Standing rests directly on earning power.
Pere Marquette 1st "A" 5s, 1956	77	65	3.3	1.7	.5	104⅞	62	8.8	No junior issue to act as cushion.
Texas & Pacific Gen. & Ref. "C" 5s, 1979	85	40	2.7	1.9	1.5	100⅞	57	8.9	Subject to substantial prior liens.
★Virginian Railway 1st "A" 5s, 1962	66	60	2.5	2.1	1.8	108	92	5.5	Should easily earn fixed charges 1932—high grade.
Western Maryland R. R. 1st 4s, 1952	65	47	1.9z	1.6z	1.3z	83	61	7.9	z Earnings Western Maryland Ry. Co.—Successor.
Western Pacific 1st "A" 5s, 1946	54	45	1.2	0.9	.3	100	47	13.6	Lack of earning power warrants caution.

Public Utilities

Company	Total funded debt (mil'ns)	Amount of this issue (mil'ns)	Fixed Charges times earned† 1929	1930	1931	Price 1929 High	Recent	Yield to Maturity	COMMENT
Alabama Power 1st 5s, 1946	97	71	2.8	2.3	1.9	104¾	96	5.4	Most of this issue pledged under the 1st Lien & Ref. bonds. High grade.
Alabama Power 1st Lien & Ref. 5s, 1951	97	24	2.8	2.3	1.9	102¼	92	5.7	Prior in lien to the 1st & Ref. bonds.
Alabama Power 1st & Ref. 4½s, 1967	97	63	2.8	2.3	1.9	96½	81	5.8	Junior issue with considerable merit.
Am. Power & Light Deb. 6s, 2016	364	46	1.8E	1.7E	1.6E	106¾	75	8.0	Holding Company unsecured obligation.
Appalachian Elec. Pwr. 1st & Ref. 5s, 1956	85	63	2.3	2.2	2.0	99¾	90	5.7	Reasonably sound holding.
Arkansas Power & Light 1st & Ref. 5s, '56	35	33	2.6	2.3	2.2	98	88	6.0	Sound issue.
★Bell Telephone of Pennsylvania 1st & Ref. "C" 5s, 1960	97	85	3.2	2.7	2.8	108¼	105	4.7	Impressive earnings record—high grade.
Brooklyn Edison Gen. "A" 5s, 1949	67	56	6.5	6.1	6.2	105¼	105	4.6	Exceedingly high grade investment issue.
Brooklyn Union Gas 1st Cons. 5s, 1945	39	15	3.0	3.2	3.4	106¼	107	4.3	Subject only to insignificant prior liens. Highest grade.
★Brooklyn Union Gas 1st & Ref. "A" 6s, '47	39	6	3.0	3.2	3.4	113	110	5.0	Junior to 1st 5s, but still high grade.
Brooklyn Union Gas Deb. 5s, 1950	39	18	3.0	3.2	3.4	..	99	5.1	Strong obligation, tho unsecured by mtge.
★Cincinnati Gas & Elec. 1st "A" 4s, 1968	35	35	5.7	5.3	5.4	90½	92	4.5	Columbia Gas controls—highest grade.
★Commonwealth Edison 1st "F" 4s, 1981	180	175	3.8	3.7	3.3	..	85	4.8	New financing successfully accomplished. Issue should now do better. High grade.
Con. Gas of New York Deb. 4½s, 1951	343	340	5.3	5.5	4.9	..	94	5.0	Unsecured obligation of a strong company.
Cont. Gas & Electric Deb. "A" 5s, 1958	117	52	1.8	1.7	1.7	91¼	63	8.6	Among the better utility debentures.
Duke Power 1st & Ref. 4½s, 1967	64	40	3.7	3.0	2.7	97½	91	5.0	Strong issue—interest charges well earned.
Indianapolis Power & Lt. 1st "A" 5s, 1957	38	38	2.9	2.7	2.5	99⅝	98	5.5	Reasonably safe holding.
International Tel. & Tel. Deb. 5s, 1955	187	123	3.0	2.3	1.8	..	48	11.5	Better foreign exchange transfer outlook, but bonds still speculative.

Street's Bond Appraisals

Public Utilities (*Continued*)

Company	Total funded debt (mil'ns)	Amount of this issue (mil'ns)	Fixed Charges times earned† 1929	1930	1931	Price 1929 High	Recent	Yield to Maturity	COMMENT
Kansas City Power & Light 1st 4½s, 1961.	41	41	3.8	3.7	4.0	..	97	4.7	High grade investment.
Milwaukee Elec. Rly. & Light Ref. 1st (now 1st) 5s, 1961	64	64	3.4	2.9	1.9	101⅝	88	5.8	Medium grade issue.
★New England Tel. & Tel. 1st "B" 4½s, '61	88	75	3.2	3.2	3.1	100¼	100	4.5	Gilt-edged.
★Pacific Gas & Electric Gen. & Ref. 5s, 1942	336	36	2.5	2.4	2.4	103¼	104	4.5	Prior in lien to the 1st & Ref. bonds.
Pacific Gas & El. 1st & Ref. "F" 4½s, '60	336	170	2.5	2.4	2.4	..	93	5.0	Strong investment issue.
Public Serv. El. & Gas 1st & Ref. 4½s, '67	119	91	3.9	4.0	3.8	100¼	100	4.5	High grade investment issue.
Southern California Edison Gen. 5s, 1939..	138	13	3.3	3.3	3.2	104¼	105	4.2	Prior in lien to the Ref. bonds.
★Southern California Edison Ref. 5s, 1951...	138	120	3.3	3.3	3.2	102¾	101	4.9	High grade issue—Interest amply covered.
Washing'n Water Power 1st & Gen. 5s, '60	21	15	6.2	4.0	3.7	..	98	5.1	Substantial margin of safety in earnings.
★West Penn. Power 1st "G" 5s, 1956......	47	47	4.2	4.0	4.1	105	104	4.7	High grade investment issue.

Industrials

American Rolling Mill Deb. 5s, 1948......	48	24	5.3	1.1	def	102⅞	60	10.1	Speculative—company hard hit.
American Smelting & Ref. 1st "A" 5s, '47	36	36	12.6	7.1	1.5	102¾	91	5.9	Affected by chaotic copper situation—issue, however possesses decided merit.
Armour & Co. (Del.) 1st Guar. "A" 5½s, 1943	68	56	1.3c	1.0c	def c	92½	71	9.9	c Earnings of Armour & Co. (Ill.) guarantor. Higher meat prices better outlook.
California Packing Conv. Deb. 5s, 1940....	15	15	..	1.2	def	..	72	10.2	Smaller packs and decline in stocks improve position.
Dodge Bros. Deb. 6s, 1940..............	44	44	7.2d	1.1d	1.7d	105⅞	87	8.3	d Earnings Chrysler, assuming co.—Medium grade.
Goodyear Tire & Rubber 1st & Coll. 5s, '57	61	56	4.8	3.0	2.2	95	82	6.4	Medium grade obligation, despite present deplorable condition of the industry.
Illinois Steel Deb. 4½s, 1940..............	30	19	26.2a	20.0a	3.4a	100	98	4.8	a U. S. Steel's earnings, guarantor.
Libby, McNeill & Libby 1st 5s, 1942.......	12	12	2.8	2.6	def	94	65	10.8	Earnings off sharply—speculative.
★Liggett & Myers Deb. 7s, 1944............	28	13	13.9	15.2	14.7	121½	118	5.0	Senior to the 5s of 1951.
Liggett & Myers Deb. 5s, 1951...........	28	15	13.9	15.2	14.7	104	105	4.6	High grade issue.
Loew's, Inc., Deb. 6s, 1941.............	32	11	NF	NF	NF	100½	90	7.5	Affected by beclouded condition of the industry. Recent economies helpful.
New York Dock 1st 4s, 1951	24	13	1.8	1.8	1.7	87¾	68	7.1	Now selling less out of line.
Std. Oil Co. of N. Y. (Now Socony-Vacuum) Deb. 4½s, '51	99	50	17.7	9.0	.1	98⅛	95	4.6	Strong debenture, despite last year's slump in earnings.
★Std. Oil Co. (N. J.) Deb. 5s, 1946.........	173	90	19.7	7.4	3.2	103⅝	103	4.7	Industrial issue of the highest class.
Texas Corp. Deb. 5s, 1944	115	100	..	3.2	def	103	92	5.9	Medium grade—oil outlook improved.
Tobacco Prod. (N. J.) Coll. Trust Deb. 6½s, 2022	36	36	..	..	..	..	93	7.0	Secured by pledge of a lease agreement with Am. Tobacco—interesting issue.
Union Gulf Coll. Trust 5s, 1950............	60	60	..	3.0b	def b	..	98	5.2	b Gulf Oil (Pa.) earnings, virtually guarantor of issue.
U. S. Rubber 1st & Ref. "A" 5s, 1947.....	87	73	1.1	Def	Def	92¾	55	11.3	Loss of earning power affects status.
U. S. Rubber 6½% Notes 1926/1940	87	16	1.1	Def	Def	..	..	..	Obligation unsecured by mortgage.
Western Electric Deb. 5s, 1944............	35	35	6.9	4.3	3.3	105	100	5.0	Strong issue, though co.'s present earnings believed poor.
Wilson & Co. 1st 6s, 1941................	20	19	2.3	2.6	def	103½	85	8.4	Medium grade. Higher meat prices helpful.

Short Term Issues

Company	Due date	Amount of this issue (millions)	Fixed Charges times earned† 1930	1931	Recent Price	Yield to Maturity	COMMENT
Bethlehem Steel P. M. & Imp. 5s.........	7.1.36	25	4.3	1.0	94	6.4	Steel industry badly depressed—Issue now but medium grade.
Chicago & Northwestern Sec. 6½s	3.1.36	15	1.5	.6	80	13.9	R. F. C. averts serious embarrassment.
★Consumers Power 1st & Ref. 5s...........	1.1.36	33	4.5	3.7	103	4.1	Exceedingly high grade issue.
★Cumberland Tel. & Tel. Gen. 5s...........	1.1.37	15	3.9m	3.7m	103	4.3	m Earnings Sou. Bell Tel. assuming co.—Highest grade.
Edison Electric Ill. (Bos.) Notes 5s......	5.2.35	125	3.2	3.2	101	4.6	Company enjoys a fine credit standing.
Lehigh Valley Coal 1st 5s	1.1.33	10	1.3	1.3	83	..	Secured on coal lands and guaranteed Lehigh Valley R. R.
Milwaukee & Northern 1st Ext. 4½s......	6.1.34	5	1.3n	0.4n	87	12.0	n Earnings of Chic., Mil. & St. Paul, assuming road.
New York Central & H. R. 4s............	5.1.34	48	1.6p	1.0p	85	12.7	p Earnings N. Y. Central R. R., assuming co.—Strong issue under influence possible financial difficulties.
Portland (Ore.) General Electric 1st 5s....	7.1.35	7	2.3	2.0	92	8.0	Well secured bond, but co. faces possible refunding difficulties.
St. Paul, Minneapolis & Manitoba Cons. (Now 1st) 4½s	7.1.33	42	2.0q	1.3q	95	9.9	q Earnings Great Northern, assuming co.—High grade, but may be some difficulty in refunding.
Smith (A. O.) 1st 6½s	5.1.33	3	22.6	13.9	101	5.5	Company's strong financial position reassuring—Interesting issue.
★Southern Pacific R. R. (Cal.) 1st 5s.......	11.1.37	4	2.1r	1.2r	100	5.0	r Earnings Southern Pacific R. R., guarantor—High grade bond.
Texas Power & Light 1st 5s...............	6.1.37	25	2.2	2.0	99	5.3	Reasonably safe investment.
Third Avenue R. R. 1st 5s................	7.1.37	5	1.6	1.9	91	7.2	Among the stronger traction issues.
White Eagle Oil Deb. 5½s	3.15.37	4	4.6s	.1s	103	4.7	s Earnings Std. Oil N. Y. (Socony-Vacuum) assuming co. Secured equally with co.'s own debentures.

★ Our preferences in above list. E—Estimated. NF—Not available.

† Fixed charges times earned is computed on an "over all" basis. In the case of a railroad, the item includes interest on funded and other debt, rents for leased roads, miscellaneous rents, etc.; in the case of a public utility it includes interest on funded and unfunded debt, subsidiary preferred dividends, minority interest, etc.

LOUISVILLE GAS & ELECTRIC

Enviable Record of Stability

Present Dividend Offers High Income

By V. C. Shearon

FEW public utility issues offer as much investment attraction in the present market as the Class A stock of the Louisville Gas & Electric Co. The company's earnings show an enviable record of stability and currently cover dividend requirements by a satisfactory margin. Yet at recent quotations around $19 per share the stock yields more than 9%.

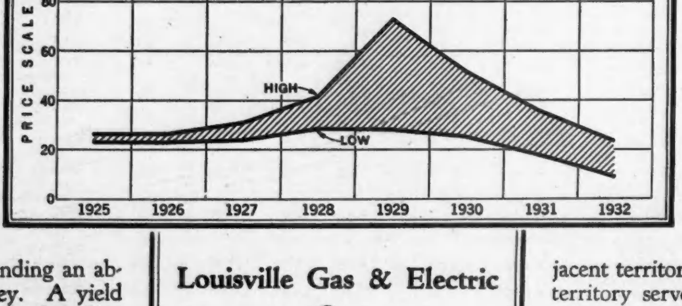
This company is not widely known and its stock, despite its attractively low price in dollars per share, has been a far less popular speculative and investment medium than various others of substantially less merit. It is probably this fact, together with a general excess of speculative fear, that accounted for the issue's decline, at the low point this year, to a price of $8.50 per share.

The absurdity of that temporary quotation is obvious, since it was less than four times 1931 earnings per share and since it afforded a yield of approximately 20% on a reasonably secure dividend. The lowest price of the year having been entirely abnormal, the investor who considers the issue high because it has more than doubled its lowest price will still be demanding an abnormal value for his money. A yield of more than 9% on a good utility must, obviously, be considered attractive.

While this company is perhaps not to be compared with such utility giants as Consolidated Gas or Public Service of New Jersey, it is nevertheless interesting to note that on the basis of dividend yield and margin of dividend coverage Louisville Gas & Electric Class A stock is accorded a relatively cheap market appraisal. The difference in actual values can hardly be as great as market comparisons would appear at first glance to indicate.

In the twelve months ended June 30, the company earned total income of $3,336,177, as compared with $3,615,459 for the preceding twelve months. Since this period embraced the most acute phase of the depression, the shrinkage in earnings may be considered of remarkably small proportions. Moreover, it appears probable that this downturn represents merely a temporary interruption in a consistently upward trend of earnings.

From 1925 through 1931 the company showed a gain in gross revenues each year, the total rising from $7,903,899 in 1925 to $10,714,010 in 1931. During the same period net income expanded from $2,783,329 to $3,741,493. The 1931 net income, after all deductions, amounted to $2.63 per share on combined 600,374 no-par value shares of Class A stock and 300,949 no-par value shares of Class B common.



Louisville Gas & Electric Co.

	Net Income
1926	$1,630,513
1927	1,568,854
1928	1,817,398
1929	2,154,533
1930	2,123,924
1931	2,373,636

The only disadvantage attaching to the Class A stock is that it has no voting power. The company is a holding company, controlled by the Standard Gas & Electric Co. through ownership of all but a nominal proportion of the Class B, or voting, stock. Incorporated in Delaware, Louisville Gas & Electric Co. controls the Louisville Gas & Electric Co. of Kentucky, an operating unit; the Kentucky Coke Co. and the Kentucky Pipe Line Co. It also has a substantial interest in the Kentucky-West Virginia Gas Co., operating in a natural gas field.

Although technically a holding company, Louisville Gas & Electric of Delaware derives by far the major part of its income from the Kentucky operating utility of the same name, this unit supplying electric power and natural and artificial gas to the City of Louisville and adjacent territory. The population of the territory served is approximately 400,000.

Late in 1931 the company negotiated a long-term contract with the Cincinnati Gas & Electric Co. providing for the interchange of electric power between the two operating units. This arrangement permits substantial economies in maintaining power reserves to take care

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BROOKLYN UNION GAS

Diversified Service Sustains Earnings Despite Depression

Strongly Intrenched Operating Company Selling at Ten Times Earnings and Yielding 6.6%

By FRANCIS C. FULLERTON

HOWEVER cheap many common stocks may be on long-term prospects, the market's broad advance in recent weeks has greatly reduced the number of issues which the conservative investor can consider reasonably priced on the basis of current earnings. One such stock, underpriced in relation to the majority of speculative favorites, is Brooklyn Union Gas.

This issue has advanced from a low of 46 to a recent quotation of 75, without over-discounting current values. The low price of the year can be accounted for only by a general market pessimism which lost all touch with reality. At 46 the stock sold at only slightly more than six times annual earning power and yielded more than 10%. It need hardly be said that this was a wholly abnormal position for the stock of one of the strongest and most conservative operating utilities in the country. It was especially abnormal in relation to the company's demonstrated stability of earning power.

At recent higher prices, Brooklyn Union Gas sells for slightly more than ten times earnings and at a dividend yield of approximately 6.6%, an appraisal by no means high for an issue of this caliber.

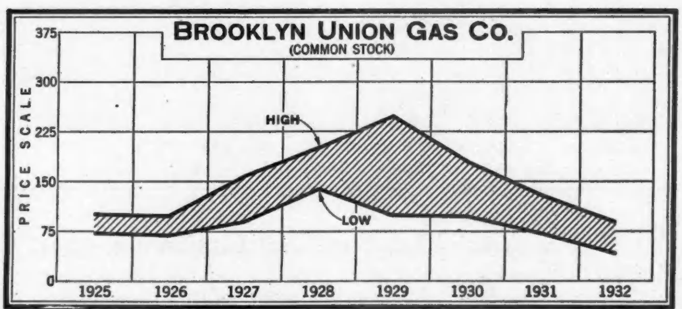
Few corporations can boast of such stability of earning power as Brooklyn Union. Net profit per share of common stock was $7.54 in 1929, $7.23 in 1930, $7.65 in 1931. It will be observed that, despite conditions of acute industrial depression which necessarily involved some shrinkage in the company's gross business, economies and increased efficiencies enable it to show a gain in income for 1931.

While it has not been possible for the company entirely to escape the effects of the deepening of depression this year, its record remains much better than that of the utility industry as a whole. Earnings per share for the twelve months ended June 30 were $6.94, as compared with $7.39 for the preceding twelve months. Current earnings, thus, are well in excess of dividend requirements. Moreover, their stability under present conditions offers substantial promise of future improvement when general business activity recovers to normal.

Of outstanding investment importance is the fact that Brooklyn Union Gas is capitalized on a notably conservative basis. Against a total fixed capital investment of $110,010,444, it has outstanding bonds amounting to $49,307,500 or less than 44% of capitalization, and capital stock of $37,060,900. Thus, total capital obligations amount to approximately 80% of the total fixed investment.

The balance sheet as of June 30 shows notes and accounts payable of $7,780,599, as compared with $8,307,242 six months previously. The major part of this item represents short-term borrowing, on favorable terms, for new construction during the last year. It has recently been funded through sale of $10,000,000 in additional bonds.

The company's 1931 profit record testifies to the ability of the management. It had to contend with abnormal weather conditions in the fall and winter months and with a reduced industrial demand for gas. In August a lower rate schedule went into effect. The result was a decline of 1.5% in total gas sales and of 1.6% in total revenues. Yet through increased sale of gas for domestic purposes and careful economies in operating expenses net income was expanded by 5.8%, as compared with 1930.



Brooklyn Union Gas

	Net Income
1926	$3,996,011
1927	3,911,558
1928	4,134.726
1929	5,553,268
1930	5,354,732
1931	5,654,802
Twelve months June 30, 1932	5,143,688

Special efforts were made to stimulate increased domestic use of gas. Gas appliance sales in 1931 were the largest in the history of the company, the dollar volume amounting to 24% more than in 1930. The greater part of this gain was accounted for by gas refrigerators, sales being made at the rate of approximately 1,000 units monthly. In addition, new uses for gas are being constantly de-

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Coal—A Pauper Baron

A Frank Appraisal of Present Problems and Prospects for Recovery in the Industry

By A. T. Shurick

This article is of unusual interest in view of the present labor difficulties in the Mid-West field. Written by an authority in the coal industry, investors in coal securities will find it of inestimable value.—Editor.

THE coal baron is not alone in the breadline; distinguished contemporaries are conspicuously present. But this is an ephemeral condition of a brief year or two with the others. Moreover, it followed a long run of active business with healthy profits.

Therein lies the difference with coal. The bituminous coal industry consistently lost ground through the sustained industrial expansion terminating in 1929. And the past two reactionary years brought a nose-dive to the lowest production since the repercussion year 1908, following the 1907 panic. With its vitality already at a low ebb, this culminating phase was a crushing blow. Current production is running 25% under the discouraging performance of 1931, so the end is not yet.

What has happened to this grandpere of the industrial giants? Does the aggressive competition of the youthful substitute fuels presage the end of coal? Or, is the riddle of salvaging the 80% to 90% lost efficiency in coal now imminent? When a bucketful of black diamonds may, perhaps, run the family auto for a month? When our coal requirements will reach us via parcel post instead of 100-ton hopper bottoms? In fine, has coal fulfilled its destiny?

The threadbare apothegm "too many mines and too many miners" attributed as the cause of the coal muddle, opens the subject at the wrong end. The *cause* is nothing more or less than an insidious shrinkage in consumption, the *effects* of which are too many mines and miners. The coal problem cannot be solved by reversing conventional procedure from cause to effect; stamp out the cause and the effects go with it.

This is no time for Utopian experiments. Miners and owners alike must face the issue. That issue pivots on recapturing lost consumption. Herein lies the destiny of coal.

What Happened to Consumption

Abundant factual data tells the story of consumption flight on the wings of substitute fuels and economizer equipment. But concrete estimates of future trends are strangely lacking. Delving into the wherefore of this, the *raison d'être* slowly unfolds in a staggering array of contributing factors covering much of the scientific lore.

Some elements in the potential future competition of fuel oil, for example, are: Will the present limiting two-mile depth of oil wells ultimately be doubled, thereby automatically doubling the possible horizon of future discoveries? Is the geophysical expert hovering on the verge of some fundamental advance in his new science that may uncover incalculable oil reserves? Or, will the increasing demand for motor fuels eventually absorb the baser product now going into the furnace? And just how remote is the day when the commercial hydrogenation of coal, already applied in Germany, will be called into service to make up deficiencies in the dwindling oil supplies?

Small wonder the dilettante investigator of future coal consumption has been content with vague generalizations. Yet this is but one of a dozen major divisions in the completed study.

A cross section of public opinion on the consumption deficit in coal would place the cause on the more tangible and visible competitive energy sources, though with a divided vote as to the chief offender. The hydropower consumer from the Rocky Mountains sees coal's nemesis in the vast undeveloped resources of White Power. The floods of new energy flowing by the door of the Mid-Continental consumer in long-distance transmission lines from remote gas fields, leave no doubt in his mind as to the fate of King Coal. Then comes the fuel-oil consumer from

Position of Leading Coal Companies

Company	Funded Debt	Earned per Share 1929	1930	1931	1932	Working Capital	Price
Island Creek Coal	None	$5.05	$3.74	$2.28	$0.71A	$7,643,000	$15
Lehigh Coal & Navigation Co.	$23,439,000	NF	1.13	1.07	0.73B	1,030,713	9
Lehigh Valley Coal	30,974,000	0.41	0.01	0.22	Def c	6,530,236	3
Pennsylvania Coal & Coke	617,000	0.72	d0.13	d1.76	d1.13	805,921	2
Philadelphia & Reading Coal & Iron	58,726,967	d0.57	0.73	0.97	NF	21,111,052	5
Pittsburgh Coal Co.	26,157,500	d5.21	d7.95	d11.07	NF	14,496,966	6
Pittston Co.	9,831,107	NF	1.90	0.27	d0.82	5,604,314	1
Truax-Traer Coal Co.	2,278,500	NF	†3.53	†1.13	†d0.55	52,054	2
United Electric Coal Cos.	891,419	‡2.24	‡1.07	‡0.46	‡1.02	208,948	5

A Six months to June 30. d Deficit. NF Not availabe. † Year to April 30. ‡ Year to July 31. ‡ Nine months to April 30. B Twelve months to June 30. c Three months to March 31.

regions contiguous to the producing fields, extending more or less superficial condolences to old friend coal man. So much for warped judgments distorted by a localized perspective.

Measured by Twentieth Century production standards, the consumption deficit in bituminous coal during the 1920-30 decade, reached the colossal total of 265,000,000 tons per annum. That is, if the rate of increase established in the first two decades had continued, the 1930 production would have been 732,000,000 tons, whereas the actual production was but 467,000,000. During these same ten years the energy consumption of the country increased as equivalent of 53,000,000 tons, while coal production declined 101,000,000, making a total deficiency of 154,000,000 tons that was picked up by the substitute fuels. But the total consumption deficit in coal was 265,000,000, so this visible loss of 154,000,000 tons to the substitute still leaves an invisible loss of 111,000,000 tons that melted away in some unknown direction.

The cause of this intangible lost consumption centers on the price factor. Throughout the pre-war history of the industry the spot price of bituminous coal seldom exceeded $1.25 per ton at the mine. Then came the imperative war demands late in 1916 ushering in a new price era of $2.60. Almost over night coal prices were more than doubled, to continue at this level and better for the next half dozen years. But this astonishing increase slipped into effect with scarcely a ripple. Prices of manufactured products had likewise been stepped up to double and treble ordinary levels; phenomenal profits were in the offing and the wheels must be kept turning whatever the cost of the power item.

Later, when booking an order for goods again became a question of how much, rather than how soon, forgotten cost sheets were resurrected, scrutinized, and pertinent inquiries directed coal producers about this $2.60 price. A sharpening of pencils over mine cost sheets followed, with a cleaning up of loose ends and the introduction of new refinements in mining technique that effected minor improvements, but an impasse to further progress quickly developed in the high-wage scales evolved out of the chaos of war times. Two-thirds of the mine cost of coal goes to labor; no important correction of the high coal prices was possible without an adjustment of this item.

The history of mine wages shows that the base rate advanced from $2.28 to $2.98 over the first 16 years of this century, an increase of 31%, or an average of two per cent a year. During the next eight years mine wages were whipped up at the dizzy rate of 19% a year, culminating with a total increase of 152% when the $7.50-Jacksonville scale was signed in 1924. In other words, the base rate during these eight years was stepped up nearly five times that in the preceding 16 years.

Here was a vulnerable point in the high coal prices that promised some worthwhile results. By all rules of reason and common sense, not to mention the dictates of justice or what you will, this incredible wage structure was due for deflation. But the union miner was unresponsive. Pressed for a concrete statement of policy, the United Mine Workers of America went into action and produced their characteristically dogmatic slogan "No Backward Step." This overgrown wage-bubble was not to be pricked by rules of reason; the union miner is from Missouri.

Courtesy, Pittsburgh Coal Co.

A Labor-saving Robot for Loading Coal Underground—A Factor in Lower Costs

It is only fair to state that the mine-worker's share in the increased cost of coal in the consumer's bin was but one of several elements including higher freight rates with increased handling and trucking charges at destination. But these further tributes only accentuated the post-war differential in the cost to the consumer.

The outstanding point is that the consumer was told to adjust his plans for the future to a $2.60-price for coal. All well enough for other defenceless industries to inaugurate drastic liquidation of wages and prices—but no backward step for coal. This ultimatum set in motion the implacable laws of economics that marked the turning point in the coal industry.

When the permanent phase of the high-coal costs finally crystallized, manufacturing specialists of fuel-economy equipment who had been more or less fruitlessly hammering at consumers' doors for most of this generation, suddenly found an attentive audience. With coal at $1.25 a ton the salesman had been hard pressed to proce the economic justification for costly fuel-economy equipment; but with coal at $2.60 a ton, the salesman became merely an order taker. Where a capital expenditure of $5,000 to effect a saving of $500 in the annual fuel bill may be of doubtful value, the incentive of a 20% return of the investment when the savings are $1,000, will not be overlooked by an alert consumer. This accounts for the invisible 111,000,000 tons of coal consumption that melted away in some unknown direction.

The high price of coal also widened the markets for substitute fuels. It is something more than a coincidence that the $2.60-price-era of coal, was also an era of unparalleled activity among the competitive fuels. The time was well chosen. Bituminous coal production was set back 101,000,000 tons per annum while the three other energy sources increased their combined outputs by the equivalent of 154,000,000 tons.

Contrary to ruling opinion in the industry, the outstanding constructive element in coal today is the impressive

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After Three Years of Depression—

What is the Investment Outlook For These Companies?

THIS is the fourth of a series of brief sketches on important companies in which there is broad security interest. These analyses are designed to give a concise picture of how corporations in which readers may be present or prospective partners are meeting the difficulties of these unusual times. All of them are not to be construed as recommendations. In fact, numerous companies in an unfavorable position are frankly discussed as well as those more fortunately situated. Selections may of course be made from those favorably described but even in these it is recommended that commitments be assumed only in accordance with the counsel given in the market article which appears in each issue of this magazine.

It will be noted that at the top of each analysis there is a suggestion as to the trend of the industry—and an indication of the company's financial strength. On the basis of quick assets, particularly cash, many stocks appear cheap but it should be borne in mind that the predominant factor in fixing present-day prices is current earning power—not the earning power in prospect or of recent years or even last year but earning power today under adverse conditions.

American Radiator & Standard Sanitary Corp.

Position of the industry: Thoroughly depressed—effects of governmental panaceas doubtful.

Co.'s working capital per share	**$5.44**
Cash or Governments per share	**$2.09**
Latest earnings year 1931 per share	**Nil**

Price	**Div.**	**Yield**
$9	—	—

REFLECTING the precipitous decline in residential construction, which commencing with 1929 has carried through until the present time, the earnings of the American Radiator & Standard Sanitary Corp. have declined, until last year the company failed to earn its preferred dividend by a wide margin. The common dividend was passed last May, thereby breaking a long standing record.

The outlook for the near future is not particularly bright, although the Government's new Home Loan Bank scheme may possibly stimulate residential construction to some extent. The attainment of even normal activity in the field, however, is probably dependent upon a return to a fair measure of general prosperity and concrete evidence of this taking place in the near future is lacking.

Nevertheless, the longer term prospect for the American Radiator & Standard Sanitary Corp. is much less obscure. Some day there is certain to be a revival in construction and the company is well prepared to benefit from it. It is amply provided with cash resources, and overhead expense for many subsidiaries is only some 50% of the 1928 overhead. More important still, the company last year placed itself in a position to benefit from the tremendous possibilities inherent in air cooling and conditioning. Through a subsidiary it is now affiliated with the Maxim Silencer Co. of Hartford, Conn., and the combination will manufacture and distribute a room silencer and air filtering device. Yet another subsidiary is manufacturing a gas-fired furnace for heating and air conditioning homes. While the common stock of the American Radiator & Standard Sanitary Corp. cannot be considered an investment at the present time because of the beclouded state of the whole building industry, it is certainly not unattractive as a speculation for the longer term.

Seaboard Oil Co.

Position of the industry: Basic position improved by control of supply, but seasonal peak is near and demand for gasoline is shrinking.

Co.'s working capital per share	**$1.56**
Cash or Governments per share	**$0.87**
Latest earnings, six months June 30, '32 per share	**$0.30**

Price	**Div.**	**Yield**
$15	**$0.40**	**2.6%**

THE Seaboard Oil Co. of Delaware is successor to the Mexican Seaboard Oil Co. It is engaged almost exclusively in the production of crude petroleum and, hence, its operations center in the most speculative branch of the industry. It controls, largely through leases, oil property in Mexico, California, Texas, Quebec and Venezuela, much of which is not yet in production. Over a period of years emphasis has shifted from the company's Mexican operations, once extensive. Its most important operations are now in California.

Seaboard Oil through its holdings in the Kettleman Hills and Buttonwillow fields in California is reported to control the largest natural gas field in California. The Pacific Gas & Electric Co. has constructed a $12,000,000 pipe line to distribute gas from this field to the San Francisco market. Its contract with Seaboard Oil, under which it will take a minimum of 34,000,000 cubic feet of gas daily during this year—and on a greater scale later—would appear

to be one of the oil company's most important assets.

Reflecting the inherent nature of the business, Seaboard's crude production and earnings have always fluctuated widely. From 1922 to 1930 both production and profits showed a downtrend. This year to date earnings have shown moderate improvement. The issue can only be considered as a radical speculation, as are the majority of relatively small, independent oil companies.

Commercial Solvents Corp.

Position of the industry: Adversely affected by the curtailment in the automobile and other industries.

Working capital per share $2.50
Cash or Governments per share $1.90
Latest earnings six months to 6/30/32 per share $0.23

Price	Div.	Yield
$9	$0.60	6.7%

IT has been the decline in sales volume of butanol and other solvents rather than any narrowing of the margin of profit which has been the cause of Commercial Solvents' lower earning power. For last year the company reported earnings of 83 cents a common share, compared with $1.07 a share in the previous year. For the first six months of 1932, earnings were equivalent to 23 cents a common share against 46 cents in the first six months of last year. The latest report casts serious doubts upon the company's ability to earn even the reduced dividend of 60 cents a share in the present year and, while financial position is such that it would be possible to dip into surplus moderately, the payment of the present rate cannot proceed for any length of time without a material increase in earning power. And this can hardly take place in the near future without a marked pick-up in the automobile, textile and other industries.

Commercial Solvents, however, has recently taken important steps to broaden the base of its operations, which were rather narrow. Last year the company allied itself with E. I. duPont de Nemours through Krebs Pigment & Color Corp. and formed with the Corn Products Refining Co. the Resinox Corp. In this way it obtained a strong foothold in the pigments and plastic fields, which eventually may contribute much to earning power. As a speculation, which may possibly be non-income producing for a time, Commercial Solvents common is not without promising potentialities.

E. I. duPont de Nemours & Co.

Position of the industry: Some divisions doing fairly well; General Motors investment principal source of current income.

Co.'s working capital per share $8.19
Cash and marketable securities (for the most part of the highest grade) per share $4.62
Latest earnings six months to 6/30/32 per share $1.01

Price	Div.	Yield
$40	$2	5%

AS the manufacturer of a great number of chemicals, E. I. duPont de Nemours has been affected quite severely by the current depression, despite the fact that certain specialties such as Cellophane have gone ahead by leaps and bounds regardless of generally poor business conditions. This is shown by the decline in income from operations which, totalling $34,212,150 in 1929, fell to $21,109,352 in 1931. For the first six months of the current year this item amounted to only $4,861,939, compared with $11,255,206 in the corresponding period of the previous year.

On the other hand, duPont's income from its vast investment in General Motors has declined to a much smaller degree, with the result that the company's consolidated per share earnings give a somewhat distorted picture of the present underlying situation. For example, the company reported for the June quarter of the current year earnings of 27 cents a common share. Of this, 23 cents was derived from General Motors, so that duPont's own operations were yielding barely enough to pay dividends on its debenture stock. For the six months ended June 30, earnings equivalent to $1.01 a share were reported, comparing with $2.24 in the corresponding previous period. Dividends were recently reduced from a regular rate of $3 a share annually to $2 a share and in the not altogether unlikely event that General Motors finds it necessary to make a further reduction in the amount disbursed to stockholders, it would seem that duPont must follow suit.

On the favorable side, one must place duPont's strong financial position and the fact that it is continually devising new products, which may be expected in time to make it less dependent upon the big motor company for the best part of its income. At prices somewhat under those now prevailing duPont may be regarded as a satisfactory commitment for the patient investor.

Northern Pacific Railway

Position of the industry: Thoroughly depressed. It will need more than ordinary business improvement for many companies to reattain their old status.

Co.'s working capital per share at 6/30/32 .... $5.40
Cash or Governments per share .... Not available
Latest earnings—net operating deficit six mos. to 6/30/32.

Price	Div.	Yield
$21	—	—

LIKE most other railroads, Northern Pacific has felt in no uncertain terms the unprecedented decline in traffic brought about by the depression. In the first six months of 1929 and subsequent years net operating income declined from $7,197,078 to $3,005,348, to $1,098,095, while in the first half of 1932 there was an operating deficit of $1,524,640. Nevertheless, despite the extremely unfavorable trend of earnings, Northern Pacific is much less precariously situated than many of its contemporaries at the present time. The road's financial position is comparatively good and it is fortunate enough to have no important maturing bond obligation before 1997. Furthermore, activities are not confined solely to the carrying of freight. Northern Pacific owns more than 830,000 shares of the Chicago, Burlington & Quincy, which is paying a semi-annual dividend of $3 a share. It has a rich, wholly-owned subsidiary, Northwestern Improvement Co., possessing coal, iron and other mines. Last year the subsidiary made Northern Pacific a special disbursement of $5,000,000 and could continue to make further large payments for a time.

But despite the many favorable factors, a satisfactory outcome must inevitably depend upon a marked improvement in traffic. At the present time the prospects for the northwest harvest are the best in years and if the promise is fulfilled Northern Pacific will undoubtedly benefit. A good harvest, however, while helpful is not enough. Industrial activity must quicken and the whole region return to at least a reasonable degree of prosperity before the road

can expect to show satisfactory earning power again. As this may be a somewhat long drawn out process, it would seem wise to await at least some reaction from present levels before purchasing the stock.

American Sugar Refining Co.

Position of the industry: Depressed by excessive supplies and sharp competition, but favored by recent modest price improvement.

Co.'s working capital per share	**$55.53**
Cash or Governments per share	**$37.78**
Latest earnings year 1931 per share	**$3.17**

Price	Div.	Yield
$32	**$2**	**6.3%**

FOR the past ten years the sugar industry has been in a chaotic condition, and while prices have shown recent moderate improvement the position is still far from satisfactory. Under the circumstances the record of the American Sugar Refining Co., dominant in the refining industry, is remarkably good. Since the close of 1930 this corporation has retired $11,500,000 in funded debt, leaving outstanding only $7,873,000 in 6% bonds, maturing in 1937. This is a very conservative funded debt for a company having assets of more than $148,000,000. Bond interest during the past decade has been covered by an annual average of 4.3 times.

Like other domestic refiners, the company is confronted with the problem of increasing imports of refined sugar, due to a lower American tariff on refined sugar than on its raw equivalent. Despite a relatively normal domestic demand thus far this year, increasing imports are estimated to have replaced approximately 12% of the volume of the domestic industry, both cane and beet. Efforts to correct this tariff inequality have thus far failed.

Due to the unfavorable tariff and to general business uncertainties, the company recently reduced its dividend to a $2 basis, against $5 formerly paid. Despite unfavorable conditions, this amount appears reasonably within current earning power. The corporation's exceptionally strong and liquid financial position should also lend security to the reduced rate.

Gold Dust Corp.

Position of the industry: Fundamentally stable but temporarily affected by depression and declining prices.

Co.'s working capital per share	**$7.88**
Cash per share	**$2.14**
Marketable securities (At market Dec. 31, '31)	**$2.82**
Latest earnings year 1931 per share	**$1.72**

Price	Div.	Yield
$18	**$1.60**	**8.9%**

GOLD DUST formerly produced and distributed soaps and washing powders, including "Gold Dust," familiar to housewives for fifty years, but in recent years has greatly expanded its scope of operations. Its lines now include such varied products as shoe polish, flour and breakfast cereals, and margarine, salad dressings and other food specialties marketed under the "Best Foods" brand. Early this year the company formed Best Foods, Inc., jointly with the General Foods Corp., eliminating price competition formerly existing between similar products and otherwise effecting economies.

Gold Dust Corp. was organized in 1923 to take over the soap business of the N. K. Fairbanks Co. In 1925 it acquired the shoe polish business of the F. F. Dalley Corp. It consolidated with the American Linseed Co. in 1928, thus entering the food business, and in 1929 acquired the Standard Milling Co.

It is probable that the maximum efficiencies resulting from the welding together of such varied enterprises are yet to be had. The company has the benefit of excellent management, continuance of which is assured by a voting trust. Its financial position is notably strong, approximately $15,000,000 in funded debt having been retired in the last three years. Although highly competitive in many lines, its trade position is strong. Substantial recovery in earning power can be expected in any period of normal general business.

General Railway Signal Co.

Position of the industry: Depressed, with future prospects depending largely upon improvement in railway traffic and earnings.

Co.'s working capital per share	**$16.84**
Cash per share	**$2.87**
Latest earnings, six months to 6/30/32 per share	**$0.46**

Price	Div.	Yield
$20	**$1**	**5%**

GENERAL RAILWAY SIGNAL has engaged for more than a quarter of a century in the manufacture of railway signal and safety devices and other railway equipment. Prior to 1924 its business consisted chiefly of supplying electric block signals and interlocking systems and apparatus. This business has since been increased by development of a patented system of switch and signal operation and train control.

Considering the extremely depressed position of the railroads and this company's direct interest in it, the fact that General Railway Signal can show any earnings at all this year is striking. This is due to operating economies in its own business, to the fact that depression has to some extent stimulated the demand for such of its equipment as contributes to economy in rail operation and, importantly, to sales of equipment for New York City's new subways.

With the exception of 1922 and 1923, dividends have been paid on the common stock at varying rates for nineteen years. On the common, as split five-for-one in 1925, the company paid a $5 dividend until January of this year. Successive reductions have now cut it to $1 annually, a rate not quite covered by earnings for the first half of this year. The company's financial position is relatively strong, but the common stock will remain in a speculative position until railroad purchasing power is substantially restored.

Procter & Gamble Co.

Position of the industry: Fundamentally stable but temporarily affected by depression and low prices.

Co.'s working capital per share	**$9.13**
Cash or Governments per share	**$3.36**
Latest earnings year to 6/30/32	**$1.26**

Price	Div.	Yield
$32	**$2**	**6.3%**

FORMED ninety-five years ago, the Procter & Gamble Co. may be considered one of the romances of American business. Its business has shown remarkably consistent expansion and its products are known

throughout the world. Its occupies a dominant position in the production and distribution of soaps, glycerine and foodstuffs derived from vegetable oils. Among its best known products are "Crisco," "Ivory Soap," "Chipso," "Duz" and "Camay Soap."

Many properties have been acquired over a period of years, some of the recent ones being James S. Kirk & Co., soap manufacturers, the Portsmouth Cotton Oil Refining Co., and Thomas Hedley & Co., Ltd., the latter being the chief competitor of Lever Bros. in England. The last-named purchase is significant in marking Procter & Gamble's aggressive entrance into English markets.

The company's capitalization consists of funded debt of $10,600,000, 22,500 shares of $8 preferred stock, 171,569 shares of $5 preferred and 6,410,000 shares of common. Financial position is exceptionally strong and the management both competent and progressive. Dividend policy has been conservative, approximately 64% of net earnings having been distributed in the last five years. Dividends have been paid on the common since 1891, the present $2 rate representing a relatively moderate reduction from the former rate of $2.40, which was the highest in the company's history. The sharp decline in earnings for the last fiscal year was due mainly to conservative inventory write-offs, exceeding $8,000,000. Subject to increasing commodity price stability and general trade revival, the outlook for the common is highly favorable.

Foster Wheeler Corp.

Position of the industry: Depressed and largely dependent for revival upon a general recovery in heavy industries.

Co.'s working capital per share	**$20.38**
Cash or Governments per share	**$4.68**
Latest earnings, six months to 6/30/32	**Def.**

Price	Div.	Yield
$13	—	—

FOSTER WHEELER is one of the largest units in the country making power plant and oil refinery equipment. Its products also include copper and brass pipe and tubing. Seeking to round out its business, it purchased the D. Connelly Boiler Co. of Cleveland in 1931, and now has facilities for the design, construction and operation of complete steam generators, including pulverized fuel equipment, water-cooled furnaces, superheaters, economizers and air heaters. It also supplies complete distillation units and approximately half of its business comes from the oil industry.

During the greater part of the last decade earnings of the company and its predecessor companies made a favorable showing under widely varying conditions and the trend of earnings until 1931 was upward. Net per share in 1928 was $3.10, increasing to $6.05 in 1929 and, despite the inception of depression, there was a further increase to $6.34 in 1930. For 1931, however, a deficit of $4.22 per share was experienced. In the first half of this year, with its customer-industries acutely depressed, the company's rate of loss has naturally increased.

Past profits and conservative dividend policies have enabled Foster Wheeler to build up a relatively strong financial position. While the immediate future is not bright, the company is strongly intrenched in its field and will benefit in due proportion from any revival in basic industries. It is possible that the present trend toward increasing profits in the oil industry may be of some advantage in increasing Foster Wheeler sales of distillation and other apparatus.

North American Co.

Position of the industry: Inherently stable, but subject to governmental interference by direct regulation and through the tax power.

Co.'s working capital per share	**$1.04**
Cash or Governments per share	**$3.06**
Latest earnings year to 6/30/32 per share	**$2.83**

Price	Div.	Yield
$40	10% Stk.	10%

NORTH AMERICAN CO. is a public utility holding company and, because recently there have been some spectacular breakdowns in this field, it is too commonly thought that all public utility holding companies are top-heavy pyramids. North American's common stock, however, has a real equity in some of the soundest and best located public utility properties in the country and it is for this reason that the company has been able to report reasonable, albeit considerably reduced, earnings on its common stock in the face of the inevitable decline in gross revenues brought about by the depression. For 1930, the company reported earnings equivalent to $4.53 a common share, based on the average number outstanding during the period. There was a decline to $3.41 in the following year, while for the twelve months ended June 30, 1932, a further decline to $2.83 a share took place.

Since 1923, North American has practiced a policy of paying common dividends in common stock, thereby retaining the cash, which would otherwise have been paid out, to further expansion. This method of making disbursements to common stockholders cannot be criticized in the face of a steady increase in per-share earnings, but can hardly be maintained indefinitely in the unlikely event that earnings continue their downward course.

Of the external factors affecting the position of North American common, the most important, of course, is general business activity. Should this actually be turning for the better, higher earnings will surely be reflected in the price of the stock. But even should current reports fail to be substantiated, common earnings will not disappear altogether, nor is the company one likely to become financially embarrassed to the permanent disadvantage of common shareholders.

Grand Union Co.

Position of the industry: Some recession in recent months, but on the whole exceptionally well sustained.

Co.'s working capital per share	**$17.04**
Cash or Governments per share	**$4.75**
Latest earnings six months to 7/2/32 per share	**$0.62**

Price	Div.	Yield
$9	—	—

ORGANIZED in the spring of 1928, the Grand Union Co. brought together a number of independent grocery stores, small chains, together with a number of concerns operating wagon routes. The company's business lies mainly in the New England states and Northern New York. Evidence that the merger was an economically sound one is to be seen in the steady increase in per share earnings from 1928 to 1930 inclusive. Last year, however, the intensification of the depression brought about a moderate recession and per share earnings on the common stock amounted to $1.86, compared with $2.84 in the previous year. For the first six months of the current year there was a further decline in earnings. In this period they were equivalent to only 62 cents a share compared with an

(Please turn to page 569)

For Profit and Income

Pierce Petroleum—Consolidated Oil "Delayed Delivery"

Pierce Petroleum in June, 1930, sold all its assets to Sinclair Consolidated, in return for the stock of the latter and is now no longer an operating company, only holding cash and the consolidated Oil stock which was received for Sinclair stock. At an annual meeting of stockholders, the Pierce management stated that it intended to dissolve the corporation and distribute its holdings of Consolidated Oil stock and cash as soon as the controversy over income and excess profit taxes between the Government and the corporation had been settled. This can be expected in the reasonably near future. Pierce Petroleum is not likely to lose anything in this tax case, as Sinclair Consolidated agreed to pay any amount up to $500,000 which the company may be assessed. Pierce Petroleum holds 645,834 shares of Consolidated Oil which means that each holder of 100 shares of Pierce Petroleum has an equity of 25.83 shares of Consolidated Oil and in addition about 10 cents a share in cash. Taking the 10 cents a share cash into consideration, a purchase of Pierce Petroleum at present prices of $1 appears to be equivalent to buying Consolidated Oil at 3¾ "delayed delivery."

* * *

An Investment Suggestion

The preferred stock of a public utility operating company, yielding even at the present time not far from 7%, is an investment which might well meet the requirements of many at the present time. It is to be found in the two preferreds of the West Penn Power Co., which operates a light, heat and power business in Northern and Western Pennsylvania. The company should not be confused with the West Penn Electric Co., which controls the former and is in turn controlled by American Water Works & Electric Co. Except for the last two years, the gross revenues of the West Penn Power Co. steadily trended upwards over a long period. Not even the depression, however, has had any really adverse effects upon the company. Net income last year was actually in excess of that shown for 1930, which in turn was but little under the peak year 1929.

West Penn Power Co. is conservatively capitalized. Among the outstanding capital liabilities are 170,000 shares of 6% cumulative preferred stock and 127,077 shares of 7% cumulative preferred stock. The company's earnings last year on these two preferred issues were equivalent to $27.17 a share and only once in the past nine years have they dropped below $25 a share on the outstanding preferred. As indicating that the equity on the senior stocks is not an over-thin one, it may be said that last year's earnings were sufficient to cover fixed charges *and* preferred dividends 2.37 times over—a coverage which might be considered not unduly poor for fixed charges alone. At the present time the 6% preferred is quoted on the New York Stock Exchange around $88 a share to yield 6.8%, while the 7% preferred is quoted in the same market at $100 a share to yield slightly more. Neither are particularly active marketwise and prospective purchasers are warned to exercise patience in buying them.

* * *

International Silver's Inventory Position

At the end of last year the inventories of International Silver Co. were carried on the company's books at $4,369,000—a value representing cost or market price whichever was lower. As the company had cash, accounts receivable and Government bonds about equal to the amount of preferred stock outstanding, all the inventory represents equity behind the common shares. With only 91,197 shares of common stock outstanding, this inventory even at the low prices prevailing December 31, 1931, was equivalent to nearly $50 a share. International Silver is an old line company and for the ten years preceding 1930 never failed to show substantial earning power on the common stock. In 1930, 1931, and the first half of 1932, however, large deficits were recorded as the result of inventory write-downs and a smaller volume of business. Nevertheless, these losses are of little moment to the prospective speculator in silver who, it would seem, might fare better by buying International Silver Co. common, rather than silver future on the Silver Exchange.

* * *

Kelly-Springfield Readjustment Favorable to 6% Preferred

Under the readjustment plan of Kelly-Springfield Tire, each share of the present 6% preferred stock will be exchangeable for $100 par value of 10-year 6% notes plus two shares of new common stock. Each share of the present 8% preferred stock will be exchangeable for one share of $6 preferred, plus three shares of new common, and each share of the present common stock will receive one-half share of new common. The 10-year 6% notes will be in a very strong position from the viewpoint of assets. Only $2,960,000 will be outstanding which compares with a working capital of around $8,000,000 and fixed assets valued at $6,850,000. As the company has no funded debt or bank loans, the notes will be the first obligation of the company. A sinking fund provides for the purchase of $75,000 per annum, payable out of net earnings after provision for interest and depreciation. Since the new management took charge of Kelly-Springfield's affairs in the

(*Please turn to page 574*)

Taking the Pulse of Business

—Sentiment Continues Hopeful

—Prices Extend Gains

—A Few Industries Improve

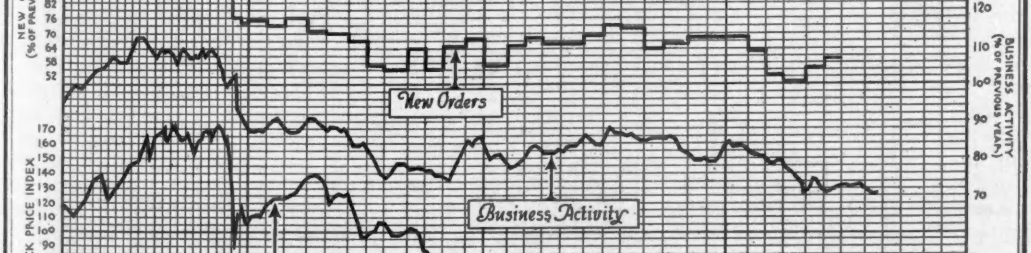
—Production Activity Lags

—New Orders Fail to Gain

IT is still a difficult task to discover tangible evidence of substantial business improvement. Several industries display slightly more activity but the basic lines have yet to reflect material gains and as a consequence the business indexes give small indication of present betterment. It is undeniable that a great belief in recovery is widespread and the new optimism of the nation is a most potent force which may find translation into more active consumer demand at any time. At present the trend of commodity prices, as shown on the succeeding page, and the Cost of Business Credit line on the Barometer below are the only indexes which afford any favorable long range implications. It is now eleven months since the Cost of Business Credit turned down and past experience would lead one to expect the depression to reach bottom and turn up about one year after this Index turns lower. It is probable that even 1930 would have followed precedent in this respect had the incipient recovery at that time not be aborted by the financial upheaval in Europe. So far as can be foreseen now, no such outside disturbances are likely to interfere this time with business recovery at home. In this connection it is perhaps significant to observe that while foreign purchases are contributing to the rise in our stock and bond markets European securities have failed to advance in anything like the same proportion. From this it might be inferred that Europeans have more confidence in the prospect for nearby business recovery in the United States than in their own countries. Perhaps they also reason that American recovery would facilitate the reduction or even the cancellation of their indebtedness and are therefore anxious to foster it.

So far as the immediate situation at home is concerned, the continued sag in our Business Activity index reveals that the physical volume of production and trade is lagging. This in itself need occasion no great discouragement when it is recalled that August is normally an indolent month in the business calendar, were it not for the failure of the New Orders graph to register any significant advance. Both May and June show moderate increases, it is true; but incomplete returns for July indicate that a considerable portion of these slight gains may already have been lost. This is the most significant of all the business indexes to watch for signs of nearby recoverings; since, regardless of any improvement in sentiment and in the prices for stocks, bonds and commodities, if the country's leading industries cannot sell more goods, there can be no permanent gains in either earned or unearned incomes.

But, while the industrial and Cost of Business Credit indexes thus far hold out little hope for much more than seasonal improvement in basic industries this autumn, there are fairly good reasons to suppose that the rise in prices in important groups shown on the commodity chart may be either prophetic, or causative, of more substantial business gains later this year or early next. It is a matter of record that the drastic deflation in prices has caused substantial curtailment the world over in the production of such essential agricultural commodities as cotton, silk, flax, wool, rubber, sugar, cocoa, tobacco, wheat, livestock, and hides; while open market operations of the Federal Reserve



Board, now supplemented by a return flow of gold, are at last beginning to make bank credit more accessible to speculators. Thus the rise in agricultural commodity prices seems to rest upon grounds more substantial than mere manipulation and sentiment. This alone will stop inventory losses, while speculative profits in both commodities and securities should eventually result in more liberal expenditures for both capital and consumption goods.

The Trend of Major Industries

STEEL—This industry, upon which all demand for capital goods coverages, is still operating at the record low rate of 14% of capacity; and, while moderate seasonal improvement may begin to appear in September, it seems doubtful if anything resembling true secular recovery can be looked for until next year when new construction projects to be financed by the Reconstruction Finance Corporation and Home Loan Banks will get under way. Mills that supply railroad needs for track and rolling stock building and repairs are likely to benefit before many months by orders from such of the stronger roads as are willing to anticipate their requirements in order to take advantage of present low costs for labor and material. Demands from automobile makers, who are planning to bring out new models this fall, are likely to be small during the remainder of the year. Little business can be expected until next year from the canning industry, and pipe line construction is nearly at a standstill.

METALS—Prices for non-ferrous metals, with domestic copper still at 5⅜ cents, have responded little to the rise in agricultural commodities, and any substantial increases in the demand for copper, lead, zinc, and tin must await revival in general business activity. The non-ferrous metal industry is traditionally a laggard owing chiefly to the difficulty of controlling stocks during a general business depression.

PETROLEUM—In spite of rather general cuts in gasoline prices, the statistical position of the oil industry continues to improve, and the outlook is for gradually rising profits. Crude output has been declining slowly since April, and gasoline stocks are down 7% in two months. It is encouraging to note that gasoline consumption is now only 5% under last year's rate, although general business is off 30%.

MOTORS — The fact that new passenger car registrations in July were only a third less than last year, as compared with a 44% decline for the first six months, offers encouragement that the depression in this industry may be drawing to a close. Considerable improvement is thus expected for next year on the basis of replacement demand; though profits during the third and fourth quarters of the present year can hardly be other than disappointing.

RUBBER—With sales for the first six months only 6% below last year, a cessation of inventory losses resulting from the price rise in rubber and cotton, and prospects of greater co-operation within the industry, tire makers may soon be able to report small profits; although volume production must necessarily await recovery in the motor car industry, and a revival in general prosperity which will permit car owners to replace used tires on a larger scale.

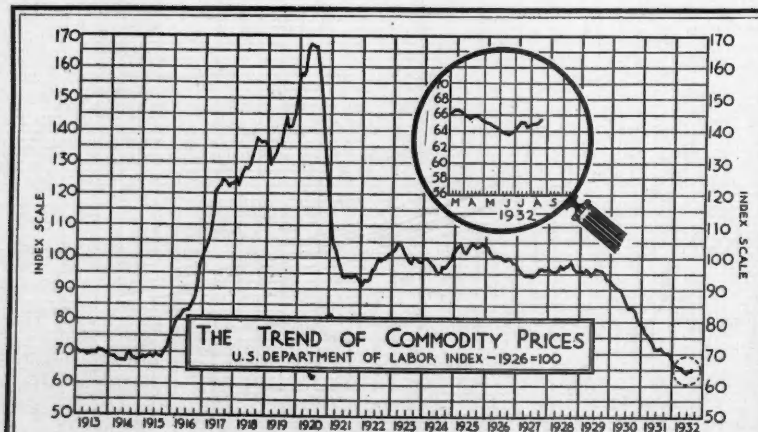
AVIATION—Longer range prospects for the air transport industry are beginning to improve; although recent reductions in passenger and mail rates will hold down earnings for a few months longer. Passengers carried during the first six months of this year exceeded last year by 27%, while air express poundage was up 72%. Since no new lines have been opened this year, the rapid expansion in passenger and express traffic should, before many months, serve to offset the cut in rates and the 13% drop in air mail poundage which has resulted from the recent increase in postage charges.

COAL—Consumption of bituminous coal has exceeded production this year and visible stocks are 12.6% less than last year. Anthracite operators are demanding a 20% to 40% reduction in union wage rates. Lower costs in both branches of the industry would permit considerable improvement in profits with any substantial revival in general industrial activity.

CHEMICALS—Demand for a variety of industrial chemicals may be stimulated by the expected improvement in textiles output. The rise in cotton should permit larger purchases of fertilizers which are greatly needed; since Southern consumption last year was 60% below normal. Alcohol makers are in exceptionally strong position, with costs of corn and molasses near record lows, prices for finished product now 34.5 cents against 18 cents last year, and stocks of alcohol on hand only 8.4 million gallons compared with 21 millions last year.

Conclusions

Summing up the outlook in all industries it becomes evident that in a considerable number definite improvement is either under way or in prospect. Before drawing too strong an inference from this, it is well to note that the more favorably situated industries are those which can benefit by rising prices for agricultural commodities. Most of these cater to private consumers, however, whose purchasing power is at present low. Improvement in the heavy industries which enter into the customary business indexes, is not likely to be of much more than seasonal proportions this autumn, but may become more substantial next year.

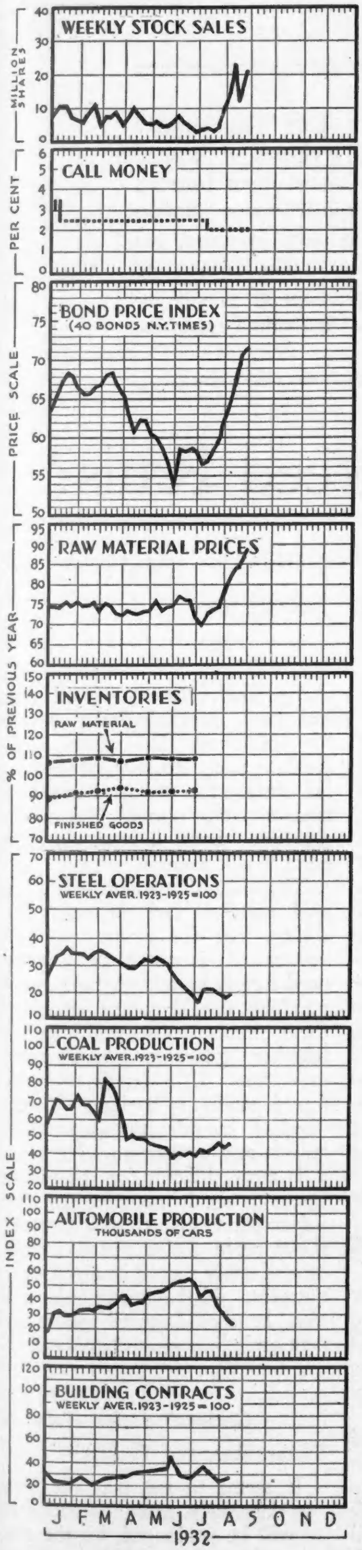


Changes in Major Commodity Groups for the Fortnight Ended August 20, 1932

Farm Products	up 2.0	Metals	up 0.9
Foods	down 0.1	Building Materials	no change
Hides and Leather	up 0.7	Chemicals	up 0.1
Textiles	up 1.2	House Furnishings	no change
Fuel and Lighting	down 0.2	Miscellaneous	no change

The Magazine of Wall Street's Indicators

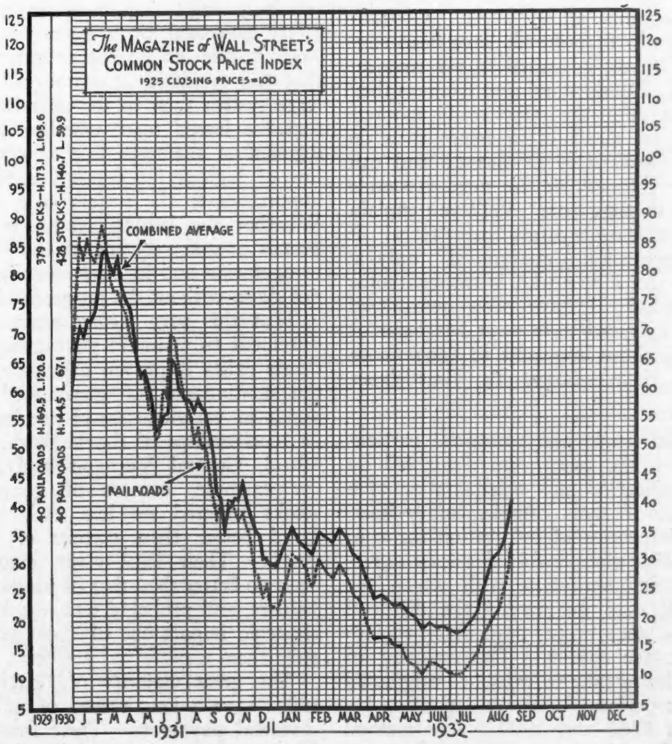
Business Indexes



Common Stock Price Index

1931 Indexes High	1931 Indexes Low	1931 Indexes Close	No. of Issues		1932 Indexes High	1932 Indexes Low	Aug. 13	Aug. 20	Aug. 27
84.4	29.2	30.0	345	COMBINED AVERAGE	41.0	18.0	31.4	33.9	41.0h
142.4	33.0	34.8	4	Agricultural Implements	66.8	17.9	49.6	53.5	66.8h
121.2	19.7	21.2	7	Amusements	48.9	11.4	35.3	45.2	48.9h
76.9	23.9	23.9	21	Automobile Accessories	27.8	10.7	19.9	20.7	25.6
37.0	12.1	13.1	16	Automobiles	14.4	5.8	10.6	11.8	13.6
74.2	22.3	31.7	4	Aviation (1927 Cl.—100)....	44.0	16.2	29.6	40.0	44.0h
38.4	8.3	9.7	3	Baking (1926 Cl.—100)......	13.0	4.8	9.0	9.8	13.0h
212.8	112.5	112.5	2	Biscuit	129.9	60.1	94.8	100.2	113.6
162.2	48.1	49.5	5	Business Machines	83.3	29.6	52.8	60.3	83.3h
188.5	96.5	99.3	2	Cans	119.0	51.0	81.0	86.0	99.0
157.8	76.2	81.6	7	Chemicals & Dyes	98.3	53.6	85.7	88.8	98.2
71.8	20.8	21.4	3	Coal	44.3	13.1	28.5	30.0	44.3h
73.7	18.9	19.5	19	Construction & Build. Mat...	24.6	9.9	18.9	19.1	23,5
92.4	30.1	30.2	11	Copper	45.4	14.9	33.1	33.4	45.4h
98.0	45.8	47.2	2	Dairy Products	57.8	28.3	37.8	39.7	44.4
30.2	9.6	10.1	9	Department Stores	14.8	4.5	9.7	10.0	13.6
120.4	52.0	53.1	8	Drug & Toilet Articles......	66.5	35.1	54.1	57.8	66.5h
149.3	44.7	46.9	5	Electric Apparatus	58.1	28.7	48.3	52.7	58.1h
21.5	4.3	4.6	3	Fertilizers	8.3	2.2	5.7	5.4	8.3h
91.3	40.8	41.7	2	Finance Companies	58.7	23.7	38.9	39.5	43.1
80.1	43.7	45.3	7	Food Brands	50.4	28.3	40.4	42.0	49.1
83.0	44.4	45.0	3	Food Stores	56.4	33.9	46.9	48.9	52.9
51.7	21.7	21.8	3	Furniture & Floor Covering..	38.2	11.7	25.6	26.5	27.5
45.5	16.6	17.0	5	Household Equipment	21.1	9.6	14.5	15.1	17.8
89.5	17.1	19.1	10	Investment Trusts	27.0	9.5	20.5	21.5	27.0h
96.3	26.1	26.1	3	Mail Orders	27.4	7.7	16.6	17.7	21.4
69.2	22.3	23.4	31	Petroleum & Natural Gas....	40.9	21.6	36.3	36.4	40.9h
68.8	12.7	13.0	4	Phonos. & Radio (1927—100)	19.1	6.2	14.6	16.2	19.1h
196.8	77.0	78.1	20	Public Utilities	89.4	37.1	67.5	76.3	89.4h
73.1	20.6	21.2	10	Railroad Equipment	34.8	12.0	22.3	24.7	34.8h
88.4	22.5	22.5	30	Railroads	33.1	10.4	21.3	25.8	33.1h
100.7	41.8	41.8	3	Restaurants	42.3	14.9	29.0	32.0	35.5
38.0	8.8	8.8	3	Shipping	14.3	4.1	9.9	9.6	11.8
183.4	82.0	82.0	2	Soft Drinks (1926 Cl.—100)..	89.2	59.0	79.0	80.7	85.7
92.3	25.3	25.8	9	Steel & Iron	38.4	11.7	24.5	26.4	38.4h
18.9	7.3	7.3	5	Sugar	11.2	3.8	8.3	9.7	11.2h
218.0	84.2	89.5	2	Sulphur	115.7	53.9	89.8	97.7	115.7h
132.4	44.5	44.5	3	Telephone & Telegraph	54.4	21.0	42.0	46.1	54.1
46.1	16.1	18.2	5	Textiles	45.4	16.3	31.1	35.0	45.4h
15.8	4.4	4.9	5	Tires & Rubber	8.8	2.5	6.6	6.6	8.8h
78.6	47.0	48.3	5	Tobacco	68.6	40.8	54.9	57.6	60.6
86.1	26.1	26.1	4	Traction	57.0	17.9	31.5	31.8	31.1
82.0	44.5	44.9	2	Variety Stores	50.9	23.3	34.9	35.9	41.5

h—New high record this year.



(An unweighted index of weekly closing prices; compensated for stock dividends, rights, and splitups; and covering about 90% of the total transactions in all Common Stocks listed on the New York Stock Exchange.)

READERS' FORUM

The Readers' Forum belongs to the readers of The Magazine of Wall Street *and is intended exclusively to serve them in the discussion of problems of general investment interest. This department welcomes and invites contributions from its readers without imposing rigid restrictions as to their choice of subject matter. Stories of personal experience with, or personal opinion upon, investment problems, are particularly appropriate since they often are of interest to many. The services of this department also are available for answering investment questions of general interest excluding inquiries regarding the position or prospects of individual securities.*

How Good Are Guaranteed Rails?

Answering Some Pertinent Questions Regarding a Little Understood Class of Investment Securities

Editor, Readers' Forum:

I am interested in investment for safety and income. I am not a speculator—cannot afford to be. Guaranteed stocks of railroads have been suggested to me as suited to my requirements. I understand that whereas they do not offer the same ready marketability as many other issues they do offer extra safety of income and can be bought now at the most favorable prices in some time. Will you explain where this extra safety comes from? Is the expression "guaranteed" only a name and if not who is the guarantor and why? I have seen guaranteed stocks referred to in your Magazine at various times but want to know more about them.—C. L. B., Brattleboro, Vt.

Most trunk line railroads, particularly in the east, were assembled by the unification and amalgamation of a number of small, complementary lines. In this process of integration the consideration often involved a lease agreement, in connection with which the leasing road guaranteed the dividend on the stock of the road absorbed into the larger system. The majority of such leases now in existence originated in the period of railway expansion between 1860 and 1900. This method played an important part in the creation of such systems as the Pennsylvania, New York Central, New Haven, Delaware & Hudson, Reading and the Delaware, Lackawanna & Western.

In many instances, if not most, the relatively high degree of investment safety possessed by a guaranteed rail stock is due less to the technical fact that the dividend is guaranteed by a large system than to the practical fact that the leased road, whether it be a segment of the main line or a branch line of high traffic density, is of vital importance to the system as a whole. Whether the leasing system is prosperous or even solvent, it has to stay in operation and in most cases it could not do so without the properties leased.

That this very strong practical inducement to maintain guaranteed dividends exists is proven conclusively by the continuance of guaranteed dividends in various cases of receivership. In receiverships of the Wabash, Rock Island, Central Vermont and Alton, for example, owners of guaranteed stocks suffered no loss and, indeed, fared better than owners of junior bonds. Their legal claim may have been no better than that of junior bondholders, and probably was not, but the strategic importance of their property gave them a preferred position.

The great majority of "guaranteed rails" have a long record of unbroken dividend payments. Their fundamental investment status is but little affected by the general slump in rail earnings, although this, together with the general deflation of all securities, has been psychologically responsible for abnormally low prices and high yields. Such stocks have a favorable tax status, the dividend income being exempt from normal Federal income taxation. Bond income, on the other hand, is not exempt.

The chief disadvantage of "guaranteed rails" is lack of ready marketability, but for many long-term investors this is not a vital factor. It need hardly be said that no investment portfolio should consist exclusively of these issues. Generalization as to whether "guaranteed rails" are better investments than bonds or good preferred stocks is useless. Wholly individual considerations must largely govern any investment selection. Since it is more difficult for the average investor to obtain accurate and complete information about such stocks than about more active, listed issues, very careful study should be given each commitment. If the buyer lacks information, be should by all means seek expert and disinterested guidance.

Collecting the Debts

Editor, Readers' Forum:

It seems to me that the idea that our depression could be partly caused, or will be prolonged, by the non-pay-

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Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET will answer, by mail or telegram, inquiries on any listed securities in which you may be interested, or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts but be brief.
2. Confine your requests to *three listed securities.*
3. Write full name and address plainly, and enclose stamped, self-addressed envelope.
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NATIONAL BISCUIT CO.

I have been much impressed with the market action of National Biscuit Company and would like your opinion as to whether this stock may not offer a real opportunity for profit at this time. It yields around 8%. In your answer, I would like you also to comment on the safety of the dividend.—V. A. O., Albany, N. Y.

For the 6 months ended June 30, 1932, National Biscuit reported profits equivalent to $1.21 a share on the 6,289,263 shares of common stock outstanding. This compares with $1.36 a share in the first half of the previous year. For the full 1931 year the company earned $2.86 a share, slightly more than its annual dividend requirements of $2.80. This compares with $3.41 a share earned in 1930. In regard to the safety of the present dividend, it is true, of course, that a dividend that is not being earned is by no means to be regarded as absolutely secure. We consider it good opinion, however, that if we have seen the worst of the depression, the current dividend rate will be maintained. For many years the company's plants have been kept up to the highest point of efficiency and depreciation charges have been liberal. Financial condition is unusually strong, balance sheet as of December 31, 1931, showing current assets of $43,902,626 against current liabilities of $8,034,644. Included in current assets was $31,600,000 cash and marketable securities. There is no funded debt. With so strong a setup the management certainly should feel justified in drawing upon surplus to a moderate degree, particularly if the outlook appears slightly more encouraging. National Biscuit has an excellent record of sustained earning power over a long period of years and there is every reason to believe that with the return of more normal conditions it will obtain its share of increased business activity with a resultant recovery in earning power. Shares are entitled to inclusion in any well-rounded portfolio and we believe purchases on recessions from present levels are warranted.

INTERNATIONAL TELEPHONE & TELEGRAPH CORP.

International Telephone & Telegraph stock has advanced over 200% from its low of the depression. Do you think the outlook for company, particularly in view of the mixed foreign situation, warrants holding for any greater price advance? I have 200 shares purchased considerably above present levels but I am wondering if it might not be well for me to sell on any further bulge, take my loss and switch to something else. What is your opinion? —L. A. F., Dayton, Ohio.

The outlook for International Telephone & Telegraph Corp., has been a subject for considerable comment in financial circles. The company's far flung network of telephone, telegraph, cable and radio properties has involved many complications of international scope. Not only has the company been handicapped by world-wide economic unsettlement, but the political changes which have taken place in several of the countries in which the company operates have injected unusual managerial problems. There is little doubt that the company, under normal conditions is in a favorable position to report substantial profits from operations. It would appear, however, that a world-wide recovery of business and industry must evidence itself before satisfactory profits can be reasonably anticipated for the company. Of major importance, at the moment, is the financial condition of the company. The growth of International Telephone & Telegraph Corp. has been rapid and vigorous, in the course of which the company has borrowed heavily in order to defray the costs of expansion. As of December 31, last, consolidated funded debt amounted to $187,599,000 of which $122,661,000 is represented by debentures of the parent company, while bank loans at the end of last year aggregated $44,000,000, which were reduced by $1,000,000 during the first quarter of this year. The management has turned from aggressive expansion to problems of consolidation, and it is understood that no further borrowing is contemplated this year. In view of the company's strong banking connections, it is likely that the bank loans can be extended from time to time,

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New York Stock Exchange

RAILS

	1930		1931		1932		Last Sale	Div'd $ Per
	High	Low	High	Low	High	Low	8/24/32	Share
A								
Atchison	242½	168	202⅞	79¼	94	17⅞	57½	..
Do Pfd.	108¾	100	108¼	75	86	35	72	5
Atlantic Coast Line	175⅛	95¼	120	25	41½	9¾	34¾	..
B								
Baltimore & Ohio	122⅞	55⅞	87⅞	14	21⅜	3¾	16¼	..
Bangor & Aroostook	84½	50⅛	66¾	18	35½	9½	35	2
Brooklyn-Manhattan Transit	78⅜	55⅛	69⅜	31⅛	50¼	11⅛	25¾	..
Do Pfd.	98¾	83	94¼	63	78⅜	31½	62	6
C								
Canadian Pacific	52¼	35¼	45⅝	10¾	20⅝	7¼	17⅛	..
Chesapeake & Ohio	51⅜	32⅜	46½	23⅜	31½	9¾	27¼	2½
C. M. & St. Paul & Pacific	26⅜	4¼	8⅞	1½	3⅝	¾	3⅝	..
Do Pfd.	46¼	7¾	15⅜	2½	6	1⅛	5¾	..
Chicago & Northwestern	89⅞	28½	45½	5	13⅞	2	13⅞	..
Chicago, Rock Is. & Pacific	125⅛	45¼	65½	7⅞	16⅜	1½	11⅝	..
D								
Delaware & Hudson	181	130⅛	157¼	64	89½	33	85½	6
Delaware, Lack. & Western	153	69½	102	17¾	35	8⅛	34	..
E								
Erie R. R.	63¾	22⅛	39¾	5	10¼	2	10¼	..
Do 1st Pfd.	67⅞	27	45½	6⅝	13¾	2⅝	13¾	..
Do 2nd Pfd.	62½	26	40½	5	9½	2	8⅞	..
G								
Great Northern Pfd.	102	51	69¾	15⅝	25	5½	18¾	..
H								
Hudson & Manhattan	53⅝	34⅞	44½	26¼	30¾	8	20½	3½
I								
Illinois Central	136¾	65¾	89	9⅛	18⅞	4¾	18⅞	..
Interborough Rapid Transit	39½	20⅜	34	4⅝	14⅝	2¼	5½	..
K								
Kansas City Southern	85⅝	34	45	6⅞	13¼	2¼	12⅞	..
Do Pfd.	70	53	64	15	23¾	5	22¾	2
L								
Lehigh Valley	84⅞	40	61	8	21¾	5	19⅞	..
Louisville & Nashville	138½	84	111	20¼	32⅜	7⅛	29½	..
M								
Mo., Kansas & Texas	66⅝	14⅞	26¾	3⅞	8⅜	1¼	8⅛	..
Do Pfd.	108⅜	60	85	10½	22⅝	3¼	22⅛	..
Missouri Pacific	98⅛	20⅜	42¾	6⅝	11	1⅛	7⅞	..
Do Pfd.	145½	79	107	12	26	2½	15¾	..
N								
New York Central	192¾	105⅛	132¼	24⅞	36⅝	8¾	28½	..
N. Y., Chic. & St. Louis	144	73	88	2½	9½	1½	8½	..
N. Y., N. H. & Hartford	128⅛	67⅝	94⅞	17	31⅝	6	23¾	..
Norfolk & Western	265	181½	217	105⅝	135	57	110	8
Northern Pacific	97	42⅜	60⅞	14½	23¼	5½	21⅜	..
P								
Pennsylvania	86⅝	53	64	16¼	23⅜	6½	18¾	..
Pere Marquette	164½	76½	85	4	15	1¾	15	..
Pittsburgh & W. Va.	121¾	48⅛	86	11	15	8	15	..
R								
Reading	141⅛	73	97½	30	48	9⅛	48	1
S								
St. Louis-San Fran.	118⅞	39¾	62¾	3	6⅝	⅝	4⅛	..
Southern Pacific	127	88	109½	26½	37⅞	6½	24⅞	..
Southern Railway	136¾	46½	65⅞	6⅜	13½	2⅛	13¼	..
Do Pfd.	101	76	83	10	20½	3	19¾	..
U								
Union Pacific	242¾	166⅛	205⅛	70⅛	94½	27⅝	80½	6
W								
Western Maryland	36	10	19⅝	5	7¾	1⅛	7⅝	..
Do 2nd Pfd.	38	11¼	20	5	8¼	2	8¼	..
Western Pacific	30½	7⅛	14⅞	1¾	4	½	3¾	..
Do Pfd.	53½	23	31⅝	3	7	¾	7	..

INDUSTRIALS AND MISCELLANEOUS

	1930		1931		1932		Last Sale	Div'd $ Per
	High	Low	High	Low	High	Low	8/24/32	Share
A								
Adams Express	37⅞	14¼	23½	3⅞	7⅛	1⅝	7⅛	..
Air Reduction, Inc.	156⅜	87½	109¾	47⅝	62½	30⅞	60⅞	*4½
Alleghany Corp.	35¼	5¾	12¾	1⅛	3⅛	⅜	2¾	..
Allied Chemical & Dye	343	170¼	182¾	64	87½	42½	83⅞	6
Allis Chalmers Mfg.	68	31¼	42¾	10½	13¾	4	11½	..
Amer. Brake Shoe & Fdy	54⅝	30	38	15½	15⅞	6⅛	15	.60
American Can	156½	104⅝	129¾	58⅛	73⅞	29⅝	57⅞	*5
Amer. Car & Fdy.	82½	24⅛	38¾	4⅛	11⅞	3⅛	11¾	..
Amer. & Foreign Power	101¾	25	51¾	6⅛	11⅝	2	10⅝	..
American Ice	41⅞	24½	31⅝	10½	21⅝	7⅝	9	2
Amer. International Corp.	55⅝	16	26	5	10⅛	2½	9½	..
Amer. Mchy. & Fdry	45	29¾	43¾	16	22¼	7⅛	16	.80
Amer. Power & Light	119⅝	36⅛	64⅞	11⅝	16⅞	3	12⅜	..
Amer. Radiator & S. S.	39¾	15	21½	5	10⅛	3⅛	9⅛	..
Amer. Rolling Mill	100⅞	28	37⅜	7⅜	14⅞	3	14¾	..
Amer. Smelting & Refining	79½	37½	58½	7½	20½	5⅛	20⅜	..
Amer. Steel Foundries	52¼	23½	31¼	5	10¾	3	10¾	..
American Stores	55½	36½	48¼	33	36¾	20	34½	*2½
Amer. Sugar Refining	69⅞	39¼	60	34½	39¼	13	31¾	2
Amer. Tel. & Tel.	274¼	170⅜	201¾	112⅛	137⅜	70¼	117¼	9
Amer. Tobacco Com.	127	98½	128¾	60½	86¾	40½	78¾	*5
Amer. Water Works & Elec.	124⅞	47⅝	80¾	23⅛	34⅛	11	28¼	3
Anaconda Copper Mining	81⅛	25	43¼	9¼	12⅜	3	10¾	..
Assoc. Dry Goods	50½	19	29⅝	5¾	8⅜	3	7¾	..

Price Range of Active Stocks

INDUSTRIALS AND MISCELLANEOUS *(Continued)*

	1930		1931		1932		Last Sale 8/24/32	Div'd $ Per Share
	High	Low	High	Low	High	Low		
A								
Atlantic Refining	51⅝	16⅝	23⅝	8⅝	19¾	8⅝	19⅛	1
Auburn Auto	263¾	60⅜	295½	84½	151¾	28¾	68	4
B								
Baldwin Loco. Works	38	19⅜	27⅞	4⅝	8½	2	7⅜	..
Barnsdall Corp. Cl. A	34	8⅝	14⅛	4	6¾	3⅜	6¼	..
Beech-Nut Packing	70⅛	46¾	62	37½	44¾	29¼	44	3
Bendix Aviation	57⅜	14¼	25⅛	12⅝	18¾	4½	11⅛	..
Best & Co.	56¼	30⅜	46¼	19¾	24⅞	5¾	15⅞	..
Bethlehem Steel Corp.	110¼	47⅜	70⅜	17¼	24⅜	7¼	20¼	..
Bohn Aluminum	69	15¾	43	15½	22¼	4⅞	13⅞	..
Borden Company	90⅜	60⅛	76½	35⅛	43⅛	20	32	2
Borg Warner	50½	15	30¾	9	12⅝	3⅜	10⅛	..
Briggs Mfg.	25⅜	12⅛	22¾	7½	11⅜	2⅞	6⅝	..
Burroughs Adding Mach.	51⅞	18⅜	32¼	10	13	6¼	12	.80
Byers & Co. (A. M.)	112⅜	33⅛	69¾	10⅞	19	7	17½	..
C								
California Packing	77⅛	41¼	53	8	12	4½	12	..
Calumet & Hecla	33⅜	7¾	11⅜	3	4½	1½	4	..
Canada Dry Ginger Ale	75⅜	30½	45	10⅜	14½	6	13⅛	1.20
Case, J. I.	362¾	83½	131½	33¼	62⅛	16¾	57	..
Caterpillar Tractor	79¾	22	52½	10¼	15	4⅜	11	.50
Cerro de Pasco Copper	65⅜	21	30⅛	9⅞	15	3½	13¼	..
Chesapeake Corp.	82½	32¼	54⅛	13⅞	20⅝	4⅞	18⅜	2
Childs Co.	67⅝	22⅞	33¾	5⅛	7½	1⅛	4	..
Chrysler Corp.	43	14⅛	25¾	11⅜	15¾	5	15½	1
Coca-Cola Co.	191⅜	133¼	170	97½	120	74⅛	101	*8
Colgate-Palmolive-Peet	64⅞	44	50½	24	31½	11	16	1
Colorado Fuel & Iron	77	18¾	32¼	6½	12⅜	2⅞	9⅛	..
Columbian Carbon	199	65⅛	111⅝	32	41⅞	13½	31¾	2
Colum. Gas & Elec.	87	30⅝	45⅝	11⅝	17½	4¼	17⅜	1
Commercial Credit	40¾	15½	23¼	8	11	3⅞	6⅝	.50
Commercial Solvents	38	14	21½	6⅝	10⅝	3½	10½	.60
Commonwealth & Southern	20½	7½	12	3	4⅞	1⅝	4¼	..
Consolidated Gas of N. Y.	136⅞	78¼	109⅝	57¼	68¾	31½	61½	4
Continental Baking Cl. A	52½	16¾	30	4½	7⅜	2⅞	7⅛	..
Continental Can, Inc.	71⅝	43½	62¾	30¼	41	17⅝	32⅜	2
Continental Oil	30½	7¾	12	5	7¾	3⅝	7¼	..
Corn Products Refining	111⅜	65	86⅝	36¼	49½	24¾	48⅜	3
Crucible Steel of Amer.	93⅝	50⅛	63	20	23¼	6	18	..
Cudahy Packing	48	38⅛	48⅞	29	35½	20	34⅛	2½
Curtis Publishing	126⅛	85	100	20	31	7	18	..
Curtiss Wright, Common	14⅞	1¾	5⅞	1	2¾	⅞	2¼	..
D								
Davison Chemical	43⅝	10	23	3½	5¼	1	4⅞	..
Diamond Match	24⅞	10	23	10⅝	17½	12	17¼	1
Dominion Stores	30⅝	12	24	11	18	11¼	17⅛	*1½
Drug, Inc.	87⅜	57⅝	78¾	42¾	57	23	46½	4
Du Pont de Nemours	145¼	80½	107	50¾	59¾	22	40¼	2
E								
Eastman Kodak Co.	255¼	142⅛	185¾	77	87⅞	35¼	55	3
Eaton Mfg.	37¼	11⅝	21⅞	5⅜	13	3	7⅜	..
Electric Auto Lite	114⅞	33	74⅜	20	32¾	8½	20	1.20
Elec. Power & Light	108½	34⅜	60¾	9	15⅜	2¾	11⅛	..
Elec. Storage Battery	79¼	47½	66	23	33¼	12⅝	28½	3
Endicott-Johnson Corp.	59⅝	36⅞	45¾	23½	36⅛	16	32	3
F								
Firestone Tire & Rubber	33⅛	15⅛	21½	12⅞	15⅜	10⅛	13⅝	1
First National Stores	61⅜	33⅝	63	41	53	35	50¼	2½
Foster Wheeler	104½	37½	64½	8	13½	3	13	..
Fox Film Cl. A	57⅜	16⅛	38⅜	2½	5⅜	1	4½	..
Freeport Texas Co.	55½	24½	43¼	13¼	24	10	24	2
G								
General Amer. Tank Car	111⅞	53⅛	73⅛	28	35¾	9½	17¾	1
General Asphalt	71⅛	22⅜	47	9⅝	15½	4¾	10⅛	..
General Electric	95⅜	41½	54¾	22⅞	26⅛	8½	19¾	.40
General Foods	61¼	44⅜	56	28¼	40½	19⅝	30¾	2
General Mills	59⅛	40⅛	50	29⅛	44¾	28	44¾	3
General Motors Corp.	54¼	31½	48	21⅜	24⅝	7⅝	16⅛	1
General Railway Signal	106⅞	56	84⅛	21	28⅝	6⅛	17½	1
General Refractories	90	39	57⅜	12	14¾	1¾	11	..
Gillette Safety Razor	106⅛	18	38¾	9¼	24¼	10⅜	20⅜	1
Gold Dust Corp.	47⅞	29	42⅛	14½	19⅝	8¼	18⅞	1.60
Goodrich Co. (B. F.)	58½	15¼	20⅞	3⅜	8	2¼	7¾	..
Goodyear Tire & Rubber	96⅞	35⅛	52¾	13¾	20¾	5½	19⅞	..
Granby Consol. Min., Smelt. & Pr.	59⅞	12	22⅝	5¼	7¾	2⅜	7½	..
Grand Union	20⅝	10	18⅞	7	9¾	3½	9	..
Great Western Sugar	34½	7	11⅞	5¾	11	3¼	11	..
Gulf States Steel	80	15	37½	4	9⅞	2½	9¾	..
H								
Hershey Chocolate	109	70	103¾	68	83	43½	61	6
Houston Oil of Texas (New)	‡116⅞	‡29¼	14	3	24⅜	8¾	23½	..
Hudson Motor Car	62⅞	18	26	7¾	11¾	2⅞	7¾	..
Hupp Motor Car	26⅝	7½	13⅛	3¾	5⅜	1½	3⅝	..
I								
Inter. Business Machines	197⅛	131	179¾	92	117	52½	98½	6
Inter. Cement	75⅜	49½	62½	16	18¾	3⅝	12¼	..
Inter. Harvester	115¾	45¼	60½	22⅜	34⅜	10⅜	32⅛	1.80
Inter. Nickel	44⅜	12¾	20⅛	7	10½	3½	10½	..
Inter. Tel. & Tel.	77⅜	17½	38¾	7⅛	12½	2⅝	12⅜	..
J								
Jewel Tea	66½	37	57½	24	35	15⅛	30¼	*4½
Johns-Manville	148⅜	48¾	80¾	15⅝	27½	10	26⅜	..
K								
Kelvinator	26⅝	7⅜	15½	6	10⅜	2¾	6¼	..
Kennecott Copper	62¾	20⅛	31⅛	9⅝	14	4⅞	14⅞	..
Kresge (S. S.)	36¾	26⅛	29⅝	15	19	6⅝	13⅛	1
Kreuger & Toll	35⅜	20⅜	27¾	4¼	9⅛	1/32	⅜	..
Kroger Grocery & Baking	48⅛	17⅛	35½	12⅛	18⅞	10	16⅝	1
L								
Lambert Co.	113	70⅜	87⅞	40⅛	56¾	25	42⅞	*5
Lehn & Fink	36	21	34⅝	18⅛	24¼	6	19	2
Liggett & Myers Tob. B	114⅝	78⅛	91¾	40	61¾	34⅛	59	*5

New York Stock Exchange Price Range of Active Stocks

INDUSTRIALS AND MISCELLANEOUS *(Continued)*

	1930 High	1930 Low	1931 High	1931 Low	1932 High	1932 Low	Last Sale 8/24/32	Div'd $ Per Share
L								
Liquid Carbonic	81⅞	39	55⅛	13½	22	9	17	1
Loew's Inc.	95¾	41¾	63½	23⅞	34	13¼	33½	*4
Loose-Wiles Biscuit	70¼	40¼	54⅞	29⅞	36⅜	16⅛	29	2
Lorillard	28⅛	8¾	21⅞	10	17⅜	9	17	1.20
M								
Mack Truck, Inc.	88⅛	39⅝	48⅞	12	22¾	10	21¾	1
Macy (R. H.)	159¼	81⅝	106¼	50	60⅛	17	41¼	2
Magma Copper	52½	19¼	27⅜	7¼	9	4½	9	.50
Marine Midland	32½	17¾	24¼	9¼	14¾	6⅛	13¾	.80
Mathieson Alkali	51⅜	30⅛	31½	12	20⅞	9	18½	1½
May Dept. Stores	61⅜	27⅜	39	15⅝	20	9⅛	17⅜	1
McKeesport Tin Plate	89½	61	103½	38½	62¼	28	50	4
Mont. Ward & Co.	49⅞	15⅛	29¼	6⅝	12⅞	3½	12⅝	..
N								
Nash Motor Co.	58½	21⅛	40⅞	15	19⅛	8	16⅛	1
National Biscuit	93	68⅝	83¾	36⅜	46⅞	20¼	42½	2.80
National Cash Register A	83½	27⅝	39¾	7⅞	14⅞	6⅛	14¾	..
National Dairy Prod.	62	35	50¾	20	31⅜	14⅜	23⅞	2
National Power & Light	58¾	30	44¼	10¼	18¾	6⅝	17⅝	1
Nevada Consol. Copper	32⅜	9	14¾	4⅜	7	2½	7	..
North Amer. Aviation	15⅝	4¼	11	2⅜	4¼	1¼	3¾	..
North American Co.	132⅞	57¼	90¼	26	40	13¾	34¾	§10%
O								
Ohio Oil	34⅛	16	19½	5⅛	11	5	10⅜	.40
Otis Elevator	80⅜	48¼	58½	16⅛	22½	9	18	1½
Otis Steel	38⅞	9½	16⅜	3½	4⅜	1¼	4¾	..
P								
Pacific Gas & Electric	74⅞	40½	54⅞	29⅝	37	16⅞	32	2
Packard Motor Car	23⅜	7¼	11⅞	3⅞	5¼	1½	3⅞	..
Paramount Publix	77¼	34¾	50¼	5½	11½	1½	7½	..
Penney (J. C.)	80	27⅝	44¾	26¾	34½	13	24⅛	2.40
Phelps Dodge Corp.	44⅜	19¾	25⅝	5⅞	9	3⅞	8½	..
Phillips Petroleum	44¾	11½	16⅝	4	7⅞	2	7½	..
Prairie Oil & Gas	54	11¼	20⅜	4⅛	8⅞	3½	8½	..
Prairie Pipe Line	60	16⅝	26½	5⅞	12⅛	5½	11⅝	..
Procter & Gamble	78⅞	52⅝	71¼	36⅜	42¾	19⅞	34	2
Public Service of N. J.	123¾	65	96½	49⅛	60	28	51	3.20
Pullman, Inc.	89⅜	47	58½	15¼	26⅛	10⅛	26	3
Pure Oil	27¼	7⅝	11⅞	3¼	6⅛	2⅞	6	..
Purity Bakeries	88⅞	36	55¼	10¾	15⅞	4⅜	12¼	1
R								
Radio Corp. of America	69⅜	11⅜	27½	5⅛	10⅝	2⅛	9⅛	..
Radio-Keith-Orpheum	50	14⅜	4	2¾	7	1⅛	5¾	..
Remington-Rand	46½	14⅛	19¾	1⅞	5	1	4⅝	..
Republic Steel	79½	10⅛	25⅜	4⅛	8⅛	1⅞	8⅜	..
Reynolds (R. J.) Tob. Cl. B	58⅝	40	54½	32⅛	40⅛	26½	36	3
Royal Dutch	56½	36⅞	42⅝	13	23	12⅛	21¼	.80⅛
S								
Safeway Stores	122⅜	38¾	69⅛	38⅝	59¼	30⅛	49¾	5
Sears, Roebuck & Co.	100⅝	43⅛	63¼	30¼	37⅛	9⅞	23⅞	..
Servel, Inc.	13½	3⅛	11¾	3½	5⅜	1⅛	3½	..
Shell Union Oil	25½	5¼	10¼	2½	7⅛	2⅛	6¾	..
Simmons Co.	94⅞	11	23¾	6⅞	12¾	2¾	12⅜	..
Skelly Oil Corp.	42	10⅛	12⅜	3	5	2½	4⅜	..
Socony-Vacuum Corp.	..	..	21	8⅜	11⅞	5¼	11⅝	.80
So. Cal. Edison	72	40⅛	54½	28⅝	32⅜	15¾	29½	2
Standard Brands	29¼	14⅛	20½	10⅛	16	8⅜	15⅞	1.20
Standard Gas & Elec. Co.	129¼	53⅛	88⅜	25⅛	34¼	7⅝	23⅜	2
Standard Oil of Calif.	75	42¼	51¾	23⅛	29⅞	15⅛	29⅝	2
Standard Oil of N. J.	84⅞	43½	52½	26	36¾	19⅞	35¾	*2
Stewart-Warner Speedometer	47	14¾	21⅞	4¾	6⅝	1⅞	5½	..
Stone & Webster	113⅜	37½	54½	9⅞	15⅜	4⅝	12¾	..
Studebaker Corp.	47¼	18⅛	26	9	13¼	2½	7½	..
T								
Texas Corp.	60½	28¼	36¼	9⅞	17⅜	9¼	16⅞	1
Texas Gulf Sulphur	67⅜	40¼	55¾	19½	26¾	12	23½	2
Texas Pac. Land Tr.	32⅜	10	17⅝	4¼	6½	2⅛	6	..
Tide Water Assoc. Oil	17¾	5⅞	9	2⅛	5⅛	2	5	..
Timken Roller Bearing	89¼	40⅛	59	16½	23	7¾	19¼	1
U								
Underwood-Elliott-Fisher	138	49	75⅜	18⅜	23½	7⅜	21	.50
Union Carbide & Carbon	106⅜	52⅛	72	27⅛	36⅜	15⅛	26⅞	1.20
Union Oil of Cal.	50	20⅛	26⅝	11	13⅞	8	13⅞	1
United Aircraft & Trans.	99	18⅜	38⅞	9⅞	19⅛	6⅛	18¾	..
United Carbon	84	14⅜	28¾	6⅛	14⅞	6⅝	14	..
United Corp.	52	13⅞	31¼	7⅞	11⅝	3⅛	10¾	.40
United Fruit	105	46⅛	67¾	17½	32⅜	10¼	29¾	2
United Gas Imp.	49⅜	24¼	37⅛	15⅜	21⅜	9¼	20⅛	1.20
U. S. Industrial Alcohol	139⅝	50⅛	77⅜	20⅜	31⅞	13¼	31¼	..
U. S. Pipe & Fdy.	38¼	18⅛	37⅛	10	15⅛	7¼	13½	2
U. S. Rubber	35	11	20⅝	3½	6¼	1¼	5⅝	..
U. S. Smelting, Ref. & Mining	36½	17⅛	25¾	12⅜	23¾	10	20¼	1
U. S. Steel Corp.	198¾	134⅜	152⅜	36	52⅝	21¼	45⅝	..
Util. Power & Lt. A	45¾	19¼	31	7⅞	10⅝	1½	7¼	..
V								
Vanadium Corp.	143¼	44⅜	76⅝	11	18⅞	5¼	17⅝	..
W								
Warren Bros.	65⅜	26⅜	46⅝	3¾	7	1¼	6½	..
Warner Brothers Pictures	80¼	9¾	20⅜	2⅛	4⅜	½	4	..
Western Union Tel.	210⅝	122⅛	150⅜	38⅛	50	12⅜	39⅛	1
Westinghouse Air Brake	52	31⅛	36⅛	11	17¾	9¼	17	..
Westinghouse Elec. & Mfg.	201½	88⅛	107¾	22½	40⅝	15⅝	39½	..
White Motor	43	21⅝	26¼	7⅜	14	6⅞	13	..
Woolworth Co. (F. W.)	70⅝	51⅛	72¾	35	45⅝	22	38⅝	2.40
Worthington Pump & Mach.	169	47	106⅝	15¼	23⅜	5	19¾	..

† Bid Price. § Payable in stock. * Including extras. ‡ Old stock.

Readers' Forum

(*Continued from page 564*)

ment of foreign debts is all wrong.

All admit that these debts cannot be paid in money or gold. They must be paid in goods or service.

At present prices, every thousand dollars' worth of European goods imported would just about throw one American out of work for a year. Is that any way to get prosperity?

This applies to Europe, not the tropics. There are a few things we cannot produce, such as coffee, tin, bananas, rubber, cocoa, etc. These things can all be produced in South America and those countries are willing and anxious to trade goods with us. No man is thrown out of work by this trade.

In collecting the European "war debts," there would be no goods exported in return, and goods imported would be the same goods we could produce. Considering our overproduction of goods and unemployment of labor, I do not see how the collection of these debts, in goods, is going to be of any benefit to us.—H. L. M.

Grand Union Co.

(*Continued from page 559*)

even $1 in the corresponding previous period.

Although the Grand Union Co. is currently paying no dividend on its common stock, the issue is not selling at an excessive price in relationship to the earning power of the company as it exists at present. On the other hand, the company is engaged in a business where the competition is becoming keener every day. Also, there is some reason to believe that we must adjust ourselves to a price level permanently lower than that which existed in 1928 and 1929. Both of these factors will make it hard for the company to show any phenomenal increase in profits.

Nevertheless, in view of the fact that earning power has been developed and that the latest consolidated balance sheet shows an insignificant funded debt and a satisfactory current financial position, the issue is not without attraction as a speculation. It should be noted, however, that the company's working capital of $17.04 a common share does not mean that the current market price of $7 a share is less than half the net quick assets *applicable* to

the common stock. There is an issue of 161,600 shares of convertible preferred stock to be taken into consideration.

Public Service Corp. of New Jersey

Position of the industry: Inherently stable, but subject to governmental interference by direct regulation and through the tax power.

Co.'s working capital per share . . $6.70

Cash or Governments per share . . $5.76

Latest earnings six months to 6/30/32 per share $1.85

Price	Div.	Yield
$52	$3.20	6.1%

IT has only been within the last year that the depression has had any but negligible effects upon the Public Service Corp. of New Jersey. Earnings in the years 1929, 1930 and 1931 were equivalent to $4.01, $4.05 and $3.85 a common share respectively. The comparatively good showing may be attributed to the company's strategic position, exceptionally well-diversified business, and also to the many economies put into effect. If it were not for these economies the company could hardly have suffered the very material decline in gross revenues of recent times without its having more serious repercussions than those which have actually taken place.

The intensification of the depression in recent months, resulting in an accelerated decline in gross revenues and a constantly mounting tax burden, has been beyond the capabilities of the company's management to offset wholly by greater efficiency. It was found necessary last June to reduce by 6% salaries, wages, and the regular amount disbursed to common stockholders. Accordingly the common dividend is now $3.20 a share annually, compared with a previous rate of $3.40 a share. Provided conditions, particularly in regard to taxes, become no worse, the new rate may be regarded as reasonably safe and at levels somewhat below those now prevailing there would seem no valid objection to the purchase of the common stock of Public Service Corp. of New Jersey, both for present return and future enhancement in value.

Sun Oil Co.

Position of the industry: Basic position improved by control of supply, but seasonal peak is near and demand for gasoline is shrinking.

Co.'s working capital per share . $10.63

Cash or Governments per share . $1.54

Latest earnings six months to 6/30/32 per share $1.13

Price	Div.	Yield
$32	$1	3.1%

DESPITE the depression, aggravated by chaotic internal conditions in the oil industry, the Sun Oil Co. is numbered among that small minority which never reported a deficit. True, earnings declined quite sharply. They fell from the equivalent of $5.60 a common share in 1929 to $5.10 a share in 1930, while for last year $1.63 a share was reported. But a comparison with the industry as a whole is highly favorable to the Sun company. Reflecting the effective control of crude production and the disposition on the part of refiners to adjust their output to consumption which has been such a noticeable feature of the industry since the end of the first quarter of the present year, the company's earnings rose to $1.13 a common share for the first six months, compared with but 49 cents for the corresponding period of 1931.

The future of the Sun Oil Co., together with the rest of the industry, virtually depends upon the holding of the ground which has been gained this year. While it is almost inconceivable that an industry run by intelligent men will again see as deplorable state of affairs as recently existed, it would be reckless to ignore certain adverse features of the situation. Bootleg crude oil is coming to market in considerable quantities, there is no absolute guarantee that the improved refinery situation will remain so indefinitely, and

finally the consumption of petroleum products for the first time in modern history shows signs of hesitation in its steady upward course. Even allowing for adverse possibilities, however, the common stock of the Sun Oil Co. is a worthy member of any diversified list of equity holdings, for the company has already demonstrated its capabilities of surviving where larger and apparently better situated units would fail.

Can Replacement Demand Bring Business Revival?

(*Continued from page 539*)

coffee, sugar, zinc. Here are not only excessive stocks, but behind them, again, we have excessive producing facilities.

Stocks of leaf tobacco at present in this country are 345,000,000 pounds over the figure of a year ago. Figures of the United States Department of Commerce throw light on the inventory position of the chemical industry. Taking the monthly average of the years 1923-1925 as a base of 100, the index of stocks of manufactured chemicals at the close of June, the latest figure available, stands at 119, as compared with 134 in April and 122 in June, 1931. In raw chemical materials the June index was 91, against 116 in January and 88 in June, 1931. There is nothing in these figures to suggest serious shortage.

Similarly, Government figures indicate that stocks of meat, eggs and butter in cold storage are only slightly reduced from the levels of a year ago. Taking into account decreased sales, such inventories probably can be regarded as showing a relative increase.

Perhaps nothing could be more sensitive to replacement demand than department store stocks and sales. The New York Federal Reserve report for the month of June shows department store stocks in this district 18.7 per cent lower than at the same date last year, but this merely matches the decline in prices during the same period—a decline estimated by the Fairchild retail price index at 18.4 per cent. In other words, the physical volume of department store stocks is approximately what it was a year ago, although in this year the volume of retail trade—consuming demand—has fallen at least 21 per cent.

For a much more comprehensive comparison of retail sales and stocks of goods in the hands of retailers—accompanying this article in tabular form—we are indebted to John Guernsey, merchandising expert of the Department of Commerce. Stocks of retail goods at the close of 1929 totaled 7,262 millions of dollars and were, thus, 14.7 per cent of that year's total retail sales of 49,115 millions of dollars. Mr. Guernsey's estimate shows retail stocks at the close of 1930 as 15.1 per cent of that year's sales, and at the end of 1931 as 14.6 per cent of 1931 sales, while his forecast of 1932 stocks is 14.1 per cent of this year's sales. It is apparent, therefore, that in relation to actual sales, retail inventories have maintained a relatively fixed percentage.

In summary, the evidence indicates that replacement demand at best probably can cause only a moderate and very gradual stimulation of general business. The basic revival is certain to be slow because considerable time will be required for the reconstruction of actual consumer purchasing power and, particularly, for the reabsorption of any substantial number of unemployed workers. On this basis it would not be surprising if the next business revival fell considerably short of the peaks to which we were accustomed during the post-war decade, even though it marked a gratifying advance from present stagnation. As a long term factor of serious economic retardation, the full significance of technological progress in relation to excessive production and excessive production facilities is likely to be made clearer during the next period of business advance and may well call for underlying adjustments of distribution and employment now beyond any possible forecast.

Louisville Gas & Electric

(*Continued from page 552*)

of varying peak loads in the respective territories. More than $6,000,000 was spent in the construction of a high voltage transmission line connecting the two properties.

The greater part of the growth in Louisville Gas & Electric earnings in recent years has come from electric power. Revenues from this business have expanded substantially since 1925, while only slight gains have been shown in gas revenues.

Balance sheet at the close of 1931 showed funded debt of $30,738,500, an increase of approximately $2,700,000 as compared with 1930. By means of this increase, however, the company retired bank loans of $2,000,000, which had been contracted for new construction. The latest balance sheet shows it free of floating indebtedness. Its present cash position is secure and there are no maturities prior to 1937. In addition to the bonded debt, a total of $21,379,800 in subsidiary preferred stocks comes ahead of the Class A and Class B common stocks.

Since 1925 dividends of $1.75 a year have been paid on Class A and Class B stocks, but the Class A is to some extent in the position of a preferred stock, enjoying a priority over Class B stock in dividends up to $1.50 per year. When $1.50 per year has been paid on the B stock, both issues share proportionately in additional disbursements.

Although the issue may be regarded as reasonably priced at recent levels, the wide scope of the market's rally may well invite corrective reaction upon which more favorable buying opportunities will be presented.

Answers to Inquiries

(*Continued from page 565*)

pending more favorable conditions in the bond market, at which time the loans may be funded on a satisfactory basis. While there are still many uncertainties confronting the company, we are inclined to advise against sacrificing the common stock purchased at higher levels, on the basis that the favorable longer term prospects of the company warrant further confidence of present shareholders.

AIR REDUCTION CO.

What is your opinion of Air Reduction Co.? Do you believe that this stock offers any great profit possibilities for the future? Is the dividend safe? A friend of mine has advised me to buy this stock, but would like your opinion.—R. J. D., Boston, Mass.

Business of this company consists almost entirely of the manufacture of oxy-acetylene gases and equipment for welding and cutting. The steel industry, railroad shops and automobile industry are normally the largest users of its products, but the company during the present depression has been able to offset to a certain extent the loss of business from these sources by the development of new uses and markets. Consequently, its rate of activity has declined considerably less than in the case of the main consuming outlets. For the 6 months ended June 30, 1932, earnings were equal to $1.47 a share compared with $2.43 a share in the first half of 1931. For the full year 1931 $4.54 a share was earned. Balance sheet as of December 31, 1931, disclosed a strong financial condition with current assets of $19,088,372 compared with current liabilities of $1,628,645. There is no funded debt, entire capitalization consisting of 841,289 shares of no par value, on which dividends are now being paid at the rate of $3 a

share per annum. In addition to the falling off in business by its main consumers, Air Reduction has also had to contend with a reduction in income due to the passing of the dividend of the United States Industrial Alcohol Co. in which it has a substantial interest (reported at about 60,000 shares). Due to better stabilization of prices the latter company's earnings outlook has greatly improved and Air Reduction can expect with reasonable assurance that this investment will soon again be paying its way. A dominant factor in an industry that can be expected to show a healthy growth over a period of years, Air Reduction can be regarded as having a rather definitely assured future and its stock, in our opinion, makes an attractive long pull purchase on recessions from present levels. With any moderate improvement in business conditions the $3 dividend could be regarded as reasonably secure.

If Inflation "Works"

(*Continued from page 542*)

affected both; especially bonds, which naturally rest more upon assurance against possibility of risk than upon enhancement of values. Appreciation of securities if maintained for any length of time, will have far-reaching effects on bankers and business men. Securities have been for three years shrinking storage for wealth. The optimistic effects of spontaneous increase of the store of wealth is as pronounced as its shrinkage is causative of pessimism. Business activity will tend to be superinduced. The ensuing rise of prices will further encourage business and tempt capital from hiding. As prices rise, money ceases to be a tempting form of investment, as is the case when prices are falling. It comes out of hoarding and relatively stagnant depository form and goes into commodities, fixed property and the evidences of ownership in them—all resulting in active markets.

Broadly speaking, the business world is always in a state of deflation or of inflation, and either may be sound and healthy. Perilous inflation may result, in the absence of control, either from undue expansion of the currency or of credit. There was no forced inflation of currency in 1929, but there was an enormous inflation of credit—concentrated mainly on the securities markets. Deflation was inevitable.

An inflation of prices resulting from a limited and permanent inflation of currency, such as would be brought about by statutory devaluation of the dollar would probably cause, at first, a morbid stimulation of business and an increase in prices out of proportion to the degree of devaluation. Readjustment to a higher price level would be disturbing. Long-time debtors would find it easier to meet their obligations, contracted on the price levels of 1922-29. Creditors would suffer, as compared with present levels, but not as compared with their position when long-time credits were extended.

In the long run higher commodity prices tend to affect bonds adversely and equity securities favorably. At first, though, in the case of normal price reflation, resulting from increased business activity, both bonds and equities are favorably affected. A price rise resulting from tampering with the currency would affect outstanding bonds adversely. Business, if in a responsive position would be stimulated, profits would temporarily rise both in volume and purchasing power, and stocks would boom. In time business would adjust itself to a permanent, fixed currency inflation, and then the old law of supply and demand would operate with full force on a higher basis level. On the other hand, inflation of credit, not being fixed, if carried beyond the demands of normally expanding business, would invite another collapse, which would carry everything down with it—stocks, bonds and commodities.

There are dire possibilities of such an event in the tremendous potential inflation of credit now at work. Equally dire is the possibility that all the present effort to stem the tide of depression by piling debt on debt and converting deflation into inflation by artificial means will fail. It is a great gamble with economic forces—the greatest in history. There are many signs that it will be a winning gamble. If so the authorities of government and finance will then face the critical task of applying the brakes without causing a crash, and in a manner to prevent the greater crash that will follow a runaway boom.

Coal—A Pauper Baron

(*Continued from page 555*)

downward revision of the $2.60-price, to present level of $1.60. Three-fourths of the increase above the pre-war $1.25-price has been recouped, though with each penny stubbornly contested by producers and miners alike.

Glorifying low coal prices is high treason in the coal family, a rank heresy which prophets of old would have expiated at the stake. Considered from the practical angle of current profit and loss sheets, the coal man derives no comfort from low prices. This $1.60-price does not presage a dismantlement of the vast array of costly fuel-economy equipment put into service in the past decade. This equipment will serve its useful life—a visitation of the sins of the father upon the new generation of coal men. But for the long pull, the records of unit consumption tell the story.

For example, an average of 1.55 pounds of coal is required to generate a kilowatt-hour of electricity in this country, whereas the Connecticut Power Co. has a high-efficiency plant doing the same job with 0.707 pound. A leading rail system has developed a costly super-locomotive that uses only 2½ pounds of coal for each horsepower at the drawbar, as compared with an estimated average of 4½ pounds for all its motive power. These are not academic theories in the blueprint stage; they are results now being obtained under conditions of practical operation. The problem of continuing high-coal prices is solved from the consumer's angle. And the heavy capital expenditures necessary to halve even the present meager consumption will be readily available with the return that can be shown on the basis of high-coal costs.

Consider also the vast unknown consumption wavering in the balance between coal and substitute fuels, not forgetting the 154,000,000 tons a year that went over to the competitive fuels in the last decade. With the neglected penny again coming into its own, low coal prices will make hard going for the substitutes on new business and find the alert coal man casting a speculative eye on lost consumption.

Low coal prices are exacting their further toll of liquidation in the industry. But for a long pull it is the case of a sharp knife being the greatest kindness. The coal man with an expectancy of another decade will be compensated for present tribulations.

The future price of coal pivots largely on the future price of labor. The grimy-skinned worker who stalks grimly through the shifting scenes of the coal drama looms prominently in any estimate of the outlook for future coal prices.

The union miner is an exponent of direct action and frankly enters the wage negotiations with the single-track objective of exacting the last penny traffic will bear; this he measures in terms of his capacity to threaten society through the latent brute power of passivity which, in turn, pivots on the strength of the union.

Precedent is not lacking for the superb ego born out of the cumulative successes that lead up to the miner's fateful demand for the $7.50-Jacksonville scale, the supreme effort that was

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IMPORTANT ISSUES

Quotations as of Recent Date

Name and Dividend	1932 Price Range High	Low	Recent Price	Name and Dividend	1932 Price Range High	Low	Recent Price
Alum. Co. of Amer.	63	22	60	Ford Motor, Can. A	15	5	9⅝
Aluminum, Ltd.	22	8¾	21	Glen Alden Coal	22½	6	20
Amer. Cit. P. & L. A (3)	39¼	16⅛	35½	Goldman Sachs T.	3⅛	1	3⅛
Amer. Cyanamid B	5⅜	1⅝	4¾	Gt. A. & P. Tea (7)	120	108	118
Amer. & Foreign Pwr. War.	7⅛	1⅛	6⅛	Gulf Oil of Pa	41	23	39⅝
Amer. Mfg. Co.	13	5⅛	12	Hecla Mining	5⅛	2	3⅞
Amer. Gas & Elec. (1)	39⅞	14½	37⅝	Humble Oil (2)	53½	35⅝	52⅛
Amer. Lt. & Traction (2½)	24⅛	10	24	Nat. Sugar N. J. (2)	25¼	10	25¼
Amer. Superpower	6	1⅛	5⅝	Newmont Mining	19½	4⅝	18¾
Assoc. Gas Elec. "A" (Stk. 5%)	5⅛	⅝	4¼	N. J. Zinc (2)	32⅛	14½	32½
Brazil T. L. & P. (8%) Stk.	13⅜	7	10⅛	Niagara Hudson Pwr. (New) (1.20)	19½	7⅞	18½
Central States El.	4	½	3¾	Niles-Bem.-Pond	8⅞	4	7⅞
Cities Service	6⅞	1¼	5¼	Penroad Corp.	3¾	1	3⅛
Cities Service Pfd.	53⅝	10	27½	St. Regis Paper, Pfd	50	14½	40¼
Cleve. Tractor	4	1¼	3	Salt Creek Prod. (1)	5⅜	2⅞	5⅛
Commonwealth Edison (5)	122	49½	84	Smith, A. O.	59	11	37⅞
Commonwealth & So. War.	1	3/16	⅞	Standard Oil of Ind. (1)	25	13⅛	24½
Consol. Gas Balt. (3.60)	69½	37¼	63½	Standard Oil of Ky. (1.20)	15⅞	8⅞	13¾
Cord Corp.	8⅛	2	3⅞	Swift & Co. (1)	18⅞	7	13⅛
Deere & Co.	15⅛	3½	14	Swift Int'l (4)	26	10	22½
Duke Power (5)	73½	31	65	United Founders	2½	5/16	2⅛
Elec. Bond & Share (6% stk.)	35	5	33	United Gas Corp.	3⅛	⅝	2¾
Elec. Bond & Share Pfd. (5)	59⅛	16½	58½	United Lt. & Pow. A	9¼	1¾	8

to make him the aristocrat of labor. This effort wrecked a great industry and finds the union almost extinct under the debris. At the peak of their influence the union miners dominated 80% of the bituminous coal production. Today they control a scant 20%. At this writing these straggling remnants in the union stronghold of the Mid-West have been on strike since April 1 under the tattered banner of "No Backward Step," now almost grotesquely obsolete. With coal consumption down to the vanishing point and incalculable shut-in non-union production awaiting business, this effort can only result in a further loss of union prestige.

Union resistance to further reduction in coal prices is more nearly negative at the moment than at any time in modern history; it cannot conceivably stem this inevitable trend over the immediate future.

The high cost of labor also stirred the industry's inventive genius into action on that grotesquely antiquated and gigantic job of hand-shoveling half a billion tons of coal a year into the mine cars. The high wage scales had added nearly a quarter of a billion dollars to the cost of this work; here was a prize that might well spell the difference between economic success and failure. Getting into their stride less than a decade ago, the underground robots developed for this service loaded 47,584,000 tons of coal in 1931, or 12.6% of the national production. Mechanized loading has hurdled the experimental stage and has an impressive field for expansion that will bring further recessions in coal prices.

The elimination of high-cost mines and a ruthless internecine competition between remaining crack operating personnels of the high-efficiency mines is forcing prices steadily lower. The industry is stripped to its loins in a bitter contest for individual existence. Depletion and depreciation charges are going by the board along with other accounting refinements, under the more immediate pressure of maintaining bank balances to meet current payrolls. Even the banker is contributing a reluctant quota to the lower prices through drastic liquidation of values wiping out carrying charges of 10 to 25 cents per ton of coal produced.

The high-price phase of the coal muddle is coming rapidly to a head. Nothing short of a miracle can prevent the price of coal slipping back close to the pre-war $1.25-level before the close of 1932.

Coal's outlook is no sinecure. It has lost prestige tremendously. Recent grudging concessions from the $2.60-price have kept the buyer's memory fresh of that unhappy time. Costly tributes exacted in the past have left an indelible mark on this generation of consumers. Their ears are attuned to the swan song of substitute fuels and economizer equipment that furnished the sinews for bringing the grasping coal baron to his knees. At best, the reaction of consumers to low coal prices will be slow. The sophisticated buyer will demand a record of performance indicating some measure of stabilization at these low levels.

Coal is now better equipped to meet the competition of substitute fuels than at any time since the $2.60-price first appeared 16 years ago. Much ground has been more or less irrevocably lost in the interim. The natural-gas fields will continue to pour vast stores of energy into the important coal-consuming centers even though stockholders' equities in many of these ventures are wiped out. The almost incalculable volumes of shut-in oil production under leash effectively preclude the possibility of a favorable turn in the price differential with fuel oil that will restore any appreciable coal consumption over the immediate future. It will be a thrifty consumer who discards this convenient heritage of more opulent times. But with the pressing need for economy in all directions, coal at present prices will be a formidable obstacle to further incursions of these luxury fuels. Coal can be confidently expected to figure prominently in future expansions of the country's energy requirements.

Coal stands today the most completely liquidated industry in the country. The weaklings in mines, men and money have been eradicated It is in strong hands, keyed to a maximum efficiency. Individually, the coal man is groggy. Collectively, the industry is in the best technical position since 1916. Productive capacity has been stepped down to a dangerously low level; picking up production in coal involves something more than throwing open the factory doors and blowing the whistle. A sudden abnormal load on the coal industry would have interesting possibilities.

Coal will not always be a pauper baron.

For Profit and Income

(Continued from page 560)

spring of 1931, there has been a marked improvement in operating results. In 1931 operating profit was $472,000, but inventory write-offs, loss in foreign exchange and reserves for decline in raw material commitments turned this into a loss for the year of $468,000. For the first six months of 1932 there was a profit of $57,000 which compares favorably with the reports of other large tire manufacturers. Recently it was announced that over 2/3 of each class of stock had been deposited under the readjustment plan and that this was sufficient to make the plan operative. This plan appears particularly favorable to the 6% preferred stock, now selling around 32, as holders will receive a bond that will give them an income equivalent to $6 per share per annum, and in addition, a substantial interest in the common stock which may in time prove valuable.

Merchant Meets Landlord in Vital Struggle

(Continued from page 544)

favored plan by both sides is conversion of an existing lease from flat to sliding payments, that is, a percentage of gross sales. These leases may have maximum and minimum amounts.

As the result of recent experience some of the powerful chains, whose stores have a prestige value to the landlord, are insisting in all new leases on cancellation clauses, operative on not more than 90 days' notice—sometimes only 60 days. One great grocery chain is taking advantage of the present situation to write new leases for only one year—although five years has been common in the grocery field—with nine successive renewal privileges. The grocery chains are generally in an advantageous position. The usual lease period being five years, these units are often already freed from "new era" rental contracts.

On the whole the great conflict over reduction of rents is being won by the chains. Each month of business recession strengthens their strategic position.

Since the first of the present year, chain stores have seen their gross sales, as measured by *Chain Store Age* composite index of 21 chains, fall from 90.7 in January (100 being the 1929-1931 average) to 83.2 in July. All the groups—drugs, apparel, 5-and-10, shoe, and grocery—have fallen, groceries least of all. Department stores are off 5 points.

The outlook, however, is that if the landlords can hold their lines a little longer, they will be in a better bargaining position, as chain store executives are unanimous in the belief that "prospects for a sustained recovery now are more favorable than at any time in the past two years, due to the low volume of stocks on hand and the stronger statistical position of both raw materials and manufactured goods."

The executives might not be so unanimously hopeful in a rent controversy, but more important to them than rent adjustments at the moment is the growing hope that the shrinkage of business which has given them the rent problem and many others is about to be replaced by expansion.

If the depression persists for a year or two more, some of the greatest chains will have to surrender and go down with all other business in a universal deflationary rout, from which business will arise anew, cleansed of its debts in the hot fires of bankruptcy. Incidentally, many chain store executives are coming to the conclusion that such an agonizing process of readjustment would be at a greater cost than the nation could bear. They are ready to welcome even monetary inflation as the lesser evil. And they give their full approval to the forces that are being mobilized to ease and stimulate credit to action.

Assuming that the nation is not to go through any such valley of Gehenna as general bankruptcy, the present reduction of rents, however brought about, will be an influential factor in the future position of chain store securities. A few hundred dollars a year saved in rent on hundreds and thousands of units will mean the difference between profit and loss, and a marked ascent of the market value of their issues. Net earnings may emerge in satisfactory volume from a much lower total volume of sales than was enjoyed in other years.

The bloodless but nerve-stretching, temper-racking battle of all Main Streets is resulting in the defeat of many sorely pressed property owners; but their loss will be the investors' gain —provided always Ol' Man Recession does not go on forever, like "Ol' Man River," down to the sea of commercial oblivion.

Railroading on Borrowed Money

(Continued from page 548)

other marketable securities. Union Pacific has maintained a particularly strong treasury position, although it has reduced its common dividend from $10 to $6 a share. Chesapeake & Ohio has reported net income so far this year and kept up its regular common dividend rate.

As already noted, the roads with the biggest funded debt have been the heaviest borrowers from the various sources available. B. & O., with $636,000,000, has borrowed $35,500,000 from the Reconstruction Finance Corporation alone. Southern Pacific, with $684,000,000, has borrowed rather extensively from the banks, but so far has not made application to the Reconstruction Finance Corporation for a loan. Its net loss for the first half of this year was $5,479,048. Chicago & North Western, whose funded debt is considerably larger than that of Atchison has had to call on the banks for a $10,000,000 loan and on the Reconstruction Finance Corporation so far for $6,643,083. This company showed net loss of $7,154,000 the 6 months to June 30.

Without carrying the comparison further it is obvious that the roads that

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This handbook, issued by Chisholm & Chapman, contains much helpful information for traders. A copy together with their Market Letter will be mailed upon request. (785).

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Describes and illustrates the history and development of the Associated Gas & Electric System. (884).

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This booklet, published by M. C. Bouvier & Co., will be sent upon request. (908).

"WHAT IS A SAVINGS & LOAN ASSOCIATION?"
This booklet explains savings — instalment and income shares. The Serial Building, Loan & Savings Institution will be glad to send a copy upon request. (918).

"HOW TO PROTECT YOUR CAPITAL AND ACCELERATE ITS GROWTH—THROUGH TRADING"
Is the title of an interesting article by E. B. Harmon of A. W. Wetsel Advisory Service, which will be sent to investors on request. (936).

LETTER TO SECURITY HOLDERS
Dunscombe & Co., members New York Stock Exchange, 60 Broad St., New York, will be pleased to send a personal letter to investors who send in a list of their security holdings suggesting switches when advisable. (937).

Bank, Insurance and Investment Trust Stocks

Quotations as of Recent Date

BANK AND TRUST COMPANIES

	Bid	Asked
Bank of N. Y. & Trust Co. (14)	320	340
Bankers (3)	68½	70½
Brooklyn (10)	195	210
Central Hanover (7)	156	160
Chase (2)	40¾	42¾
Chemical (1.80)	39	41
City (2)	50¾	52¾
Corn Exchange (4)	73	76
Empire (1.60)	27¾	29¾
First National (100)	1675	1775
Guaranty (20)	329	334
Irving Trust (1.60)	25	26
Manhattan Co. (2)	33	35
Manufacturers (2)	31¾	33¾
New York (5)	97½	100½
Public (2)	32¾	34¾
United States Trust (60)	1480	1580

INSURANCE COMPANIES

	Bid	Asked
Aetna Fire (2)	33¼	35¼
Aetna Life	20¾	22¾
Carolina	11	13
Continental	9	11
Glens Falls (1.60)	28½	30½
Globe & Rutgers	102½	112½
Great American (1)	15½	17
Hanover (1.60)	24⅛	26⅛
Hartford Fire (2)	40¼	42¼
Home (1)	18	19½
National Fire (2)	40¾	42¾
North River	12⅛	14⅛
Stuyvesant	9	12½

INSURANCE COMPANIES—(Continued)

	Bid	Asked
Travelers (22)	430	445
United States Fire (.40)	17½	19½
Westchester	12¾	14¾

SURETY AND MORTGAGE COMPANIES

	Bid	Asked
Bond & Mtg. (3.20)	34	37
Lawyers Mortgage (.80)	12⅞	14⅞
National Surety	15½	16

JOINT STOCK LAND BANKS

	Bid	Asked
Chicago	¼	¾
Dallas	2	4
Des Moines	1	..
First Carolina	⅛	..
Lincoln	½	1½
Southern Minnesota	..	1
Virginia	⅛	¼

INVESTMENT TRUST SHARES

	Bid	Asked
Amer. Founders Trust 6% Pfd.	18	25
Do 7% Pfd.	18	25
Diversified Trustees Shares A	8¼	..
Do Series B	6½	..
Fixed Trust Shares A	7¼	..
Interl. Sec. Corp. of Amer., Pfd.	11	20
Do Cum. Pfd.	11	20
No. Amer. Trust Shares	2.07	..
Second Intl. Securities A	½	2
Do 6% Pfd.	15	25
U. S. & British Internl. Pfd.	4	10
Universal Trust Shares	2.41	..

have had to borrow the most money to meet fixed and other pressing obligations since the beginning of last year, will not be able to resume dividends nearly as soon as those that have not had to borrow at all and still have fairly substantial amounts of cash and quickly marketable securities in their treasury. The former would be too busy earning and paying fixed charges.

In the latter group are Atchison, Union Pacific, Northern Pacific, Norfolk & Western, Chesapeake & Ohio, Great Northern, Delaware & Hudson, and possibly New Haven.

For whatever further advance there may be in railroad stocks, there will be more foundation for it, so far as treasury position is concerned, in the shares of these companies than in those that have greatly increased their debt, long or short term, in the past few years.

How Far Can This Market Go?

(Continued from page 537)

the point of view of the investor, the industry as a whole probably would have to attain an operating level of 50 per cent of capacity to show even modest profits.

Seasonal recession in the motor industry is now intensified by the temporary closing down of the Ford plants and little activity is expected until new models begin to appear later in the autumn. In railroad car loadings, one of the best indexes of general business activity, statistics for the week ended August 20 show a moderate increase from the preceding week but the comparison of freight traffic with that of a year ago remains approximately at the disappointing level prevailing for the past two months.

Electric power output for the latest week available indicates a slight gain, significant only if fully confirmed in the next few weeks. Building contracts for the third week of August show a substantial daily average gain, but this centers almost entirely in public works and leaves the aggregate volume construction still too low to show much promise. Bank clearings for the week ended August 24 show a decline of slightly greater than seasonal proportions and, in fact, outside of New York City, reached the lowest point of the year.

The purely financial factors, which play so large a part in shaping confidence, are, on the whole, increasingly favorable. The inward flow of gold is gradually and importantly bolstering the credit structure, in combination with a further return flow of hoarded currency to the banks. Despite this lessening of tension, the deflation of banking credit not only has not been reversed but has not been halted. The most that can be said is that its pace has been retarded, each recent week having seen a further liquidation of loans and investments by the banks. The market may be correct in anticipating an eventual upturn of this index of banking policy, but far more trust can be put in the permanency of business and security improvement when the banks actually begin to expand their loans.

Brooklyn Union Gas

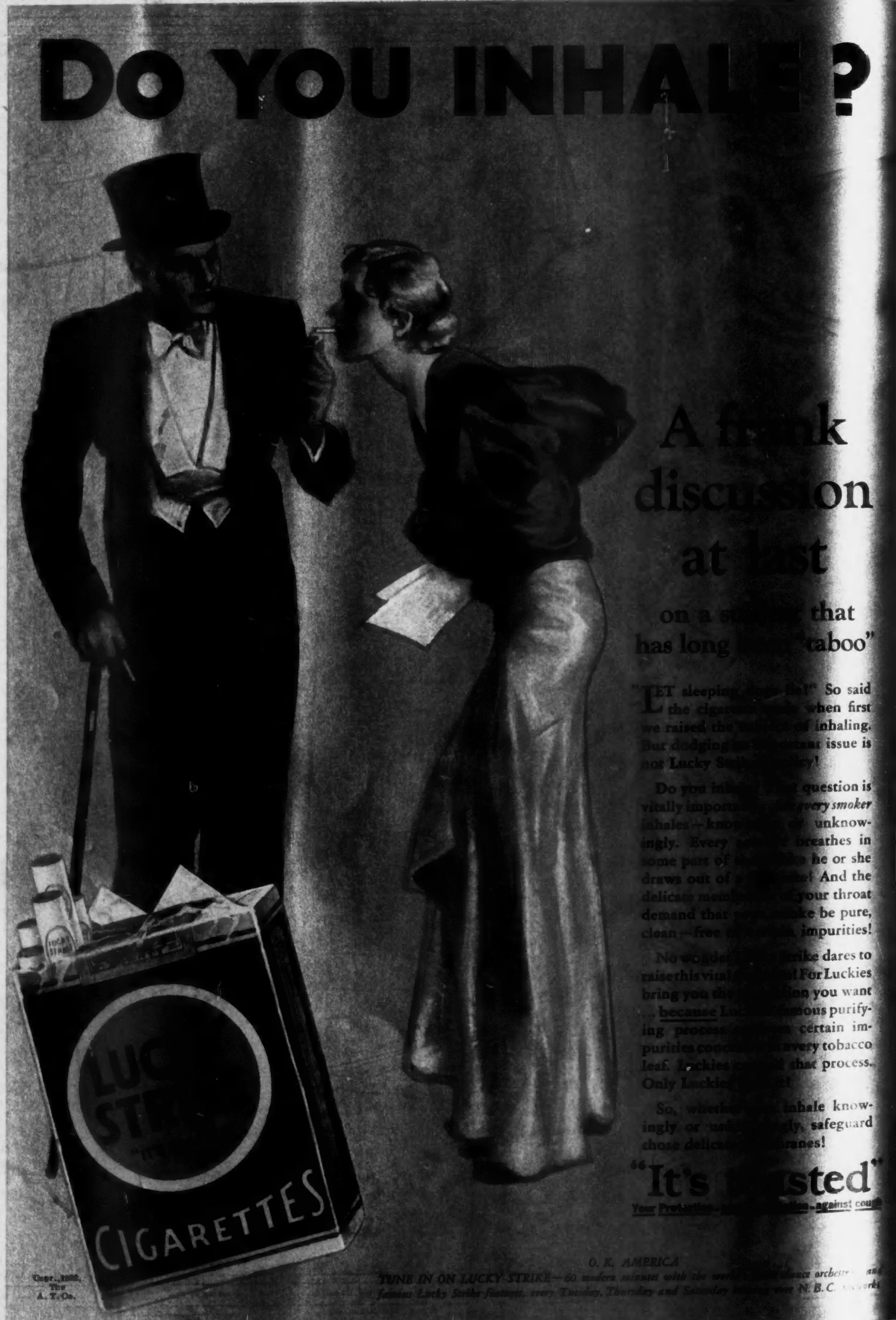
(Continued from page 553)

veloped. Heating of homes with gas equipment is gaining in popularity. Experimental work is now being done with gas equipment for house cooling and air conditioning. Prospects for the steady expansion of such domestic gas demand are excellent and will naturally be further improved in business revival. Given, in addition, a normal recovery of industrial demand, Brooklyn Union profits would have an excellent chance of surpassing all past records.

The company supplies manufactured gas to all but two wards of Brooklyn and to two of the five wards of Queens County. The population of the territory it serves is estimated at 2,800,000. There are 741,218 shares of capital stock outstanding, of which approximately 24% are held by the Koppers interests of Pittsburgh. Because of relatively small floating supply, the stock is subject to fairly wide market movements. Accordingly, investment accumulation should be accomplished in periods of market reaction

MARKET STATISTICS

	N. Y. Times	Dow, Jones Avgs.		N. Y. Times 50 Stocks		
	40 Bonds	30 Indus.	20 Rails	High	Low	Sales
Monday, August 15	67.48	66.51	28.30	58.34	55.16	1,905,290
Tuesday, August 16	68.26	68.91	30.11	61.75	58.84	3,612,075
Wednesday, August 17	68.71	67.50	28.76	61.36	57.38	2,874,690
Thursday, August 18	69.30	67.93	30.32	60.08	57.41	1,775,110
Friday, August 19	70.13	66.84	29.89	61.29	58.47	2,169,340
Saturday, August 20	70.93	67.18	30.14	59.49	58.25	661,350
Monday, August 22	72.58	70.87	33.20	63.43	59.37	3,175,408
Tuesday, August 23	72.61	72.13	33.45	65.63	63.14	4,572,045
Wednesday, August 24	71.92	73.55	36.32	66.87	63.00	3,693,640
Thursday, August 25	71.02	73.31	36.36	68.47	65.38	4,170,980
Friday, August 26	70.96	74.43	36.36	67.71	64.12	3,136,455
Saturday, August 27	71.36	75.61	36.25	68.71	66.96	2,201,960



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